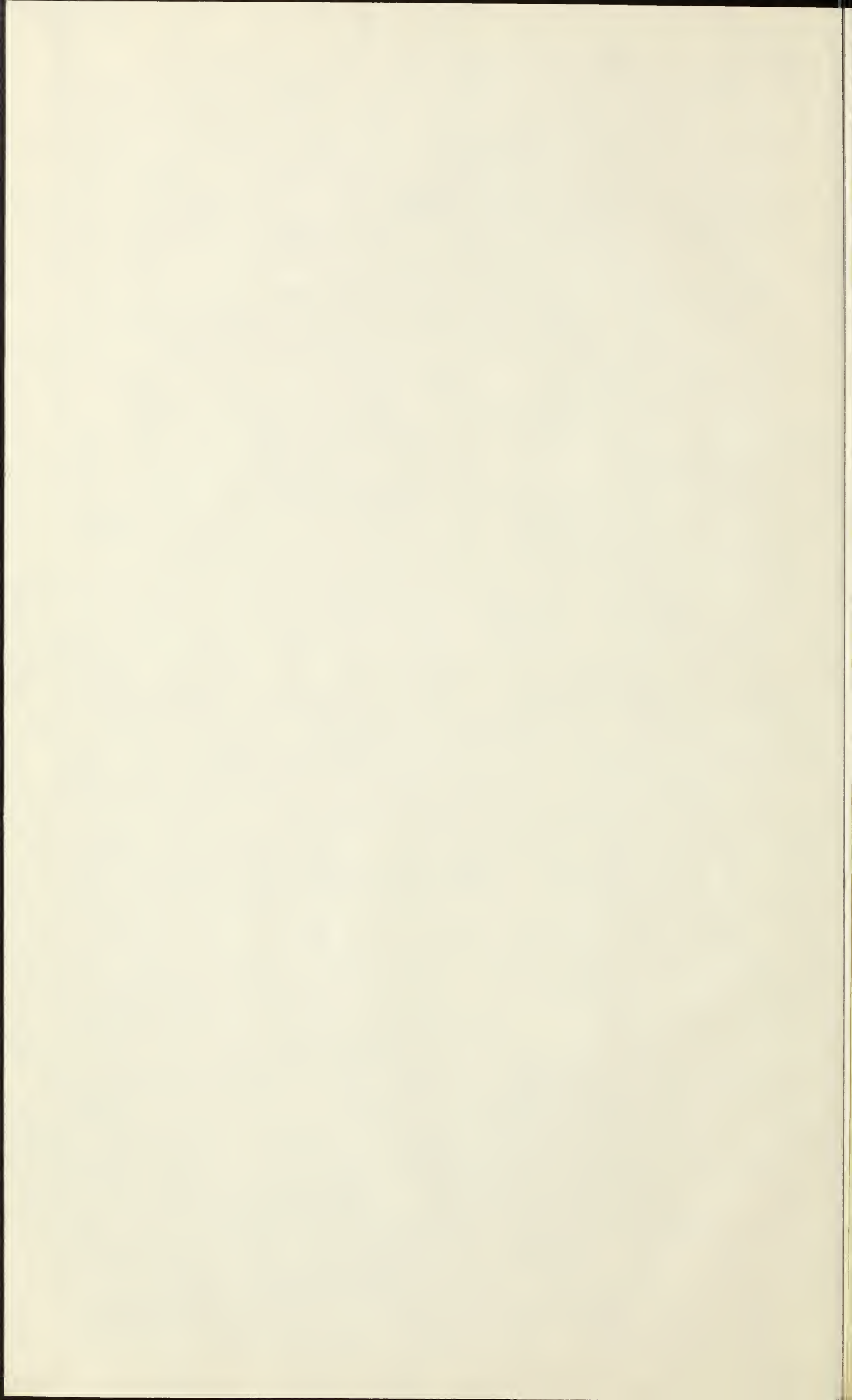






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DEPARTMENT OF AGRICULTURE AND TECHNICAL INSTRUCTION
FOR IRELAND.

REPORT

OF THE

DEPARTMENTAL COMMITTEE

ON

AGRICULTURAL CREDIT
IN IRELAND.

[v. 1]

Presented to Parliament by Command of His Majesty.

The Minutes of the Oral Evidence, with an Index thereto, together with various Statements and Returns furnished to the Committee, are printed separately. [Cd. 7376.]



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To His Excellency JOHN CAMPBELL GORDON, EARL OF ABERDEEN, K.T.,
&c., &c., LORD LIEUTENANT-GENERAL AND GENERAL GOVERNOR OF IRELAND.

MAY IT PLEASE YOUR EXCELLENCY,

I am directed by the Vice-President to submit to Your Excellency the Report of the
Departmental Committee on Agricultural Credit in Ireland.

I have the honour to remain,

Your Excellency's faithful Servant,

T. P. GILL,

Secretary.

Department of Agriculture and
Technical Instruction for Ireland,
Upper Merrion Street,
Dublin, 20th May, 1914.

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Departmental Committee on Agricultural Credit in Ireland.

COPY OF MINUTE APPOINTING THE COMMITTEE.

I HEREBY nominate and appoint a Committee to inquire into the existing system of credit available for the rural classes in Ireland ; to suggest what, if any, improvements not involving financial assistance from the Exchequer, should be made in the system ; and to consider especially the form of agricultural credit most suitable to the requirements of the occupiers of land affected by the Land Acts in the western districts, and throughout the country generally.

The Committee will consist of the following :

GEORGE MURNAGHAN, Esq., J.P. (who acted as a Member of the Irish Poor Law Commission), Chairman ;

ROBERT KYLE KNOX, Esq., LL.D. (late Chairman of the Board of Directors of the Northern Banking Company, Limited) ;

CHARLES F. BASTABLE, Esq., M.A., LL.D., Professor of Political Economy, and Regius Professor of Laws, Dublin University ;

The Right Honble. WILLIAM F. BAILEY, C.B., one of the Estates Commissioners for Ireland ;

Reverend THOMAS A. FINLAY, M.A., Vice-President of the Irish Agricultural Organisation Society, and Professor of Economics in the National University of Ireland ;

Sir ROBERT ANDERSON, Bart., J.P. (of the firm of Messrs. Anderson and Macauley, Belfast) ;

WALTER MACMORROGH KAVANAGH, Esq., D.L. ;

THOMAS PATRICK GILL, Esq., Secretary of the Department of Agriculture and Technical Instruction for Ireland.

HERBERT G. SMITH, Esq., M.A., LL.D., is appointed Secretary to the Committee.

(Signed) T. W. RUSSELL,

Vice-President of the Department of Agriculture and Technical Instruction for Ireland.

Dated this 15th day of January, 1912.

PREFATORY NOTE AND SUMMARY OF REPORT.

At an early stage in our sittings it became clear that if we were to take into account the various aspects of rural credit in Ireland, and to investigate how far each of the existing methods resorted to by farmers for obtaining capital and credit had succeeded or failed in meeting the financial needs of the agricultural community, our Inquiry would necessarily be a very comprehensive one, and would have to deal in some detail with many complicated problems. We have endeavoured to make the separate Sections of our Report self-contained, and as concise as was consistent with a satisfactory treatment of the questions involved. By means of paragraph headings, side-notes, summaries of conclusions at the end of each Section, and a full Synopsis prefixed to the Report, we have, it is hoped, facilitated reference to any portion desired. A number of short quotations from the evidence have been inserted here and there which, while not increasing unduly the length of the Report, have we trust added to its interest. We have also made use of the results of the experience of other countries when such seemed applicable to Irish conditions. We have tried to indicate clearly the reasons upon which our various conclusions have been based, this course being, we believe, much more satisfactory than the issue of a mere list of recommendations.

There are, in our opinion, several strong reasons for a careful study, at this particular period, of the various problems connected with agricultural credit in Ireland. As far as we are aware, this is the first occasion in the history of this country upon which these problems, viewed as a whole, have been the subject of investigation. Our Inquiry has taken place at a crucial stage of Irish rural development, when the land is passing into the possession of a peasant proprietary. The history of land tenure in other countries proves the extreme importance of the earlier stages of the establishment of small holders upon the soil, especially in regard to the facilities required for supplying them with capital and credit suited to their needs.

We have been much impressed during the course of our Inquiry with the wide amount of public attention which is now being directed in almost every civilised country to rural credit problems. Several requests have reached us from official and other sources in foreign countries for copies of our Report when issued— an additional reason, in our view, for our giving more than a mere cursory treatment to the subject.

MAIN FINDINGS OF REPORT.

It may be convenient to outline here the main findings of our Report.

The Joint Stock Banks, in spite of their wide extension and willingness to adapt their methods as far as possible to the needs of agriculture, are unable, from the very necessities of their business constitution, to deal with the special requirements of small farmers or of the agricultural industry generally. The special characteristics of agriculture in respect of credit are fully stated in our Report. The very large sums on deposit in the Post Savings Banks in rural districts prove that there are ample funds for small rural credit purposes if the confidence of the depositors could be attracted. A grave economic injury is done to Ireland by the transfer of these deposits to England for investment.

Moneylenders have greatly increased in numbers in Ireland, and legislation has effected little diminution of the evils connected with the system, which is largely resorted to by agriculturists, as is also, but to a lesser extent, the ruinous "trust auction" system; nor is it only impecunious farmers, unable to obtain credit elsewhere, who utilise these methods. The "gombeen man" has almost disappeared; but an injurious amount of "long credit" with shops is found in various districts, much of it for feeding stuffs which could with advantage be grown by the farmer himself. The great majority of traders prefer a cash basis for their dealings. A moderate amount of shop credit is, of course, a necessity in agriculture as in other spheres of industry.

The Loan Fund Board system was originally intended for industrial workers, but is now resorted to mainly by the rural classes. The Board in recent years have effected considerable improvement, but the whole past history of the system is an unfortunate one of local and central mismanagement, defective legislation, and heavy losses in many districts, partly due to the assumption by many depositors that the Board was a State Department, furnishing State security. This erroneous idea had no foundation in fact, for the Board is in no sense a State Department; it makes no use of State funds, being dependent upon the sale of forms and documents for its income. The number of Loan Fund Societies has fallen from 300 in 1842 to 51 at the present time. The system of loans in force is in most features unsuited to the credit needs of agriculture, but much more could have been done to adapt the system to these requirements. The Board's operations must soon cease through lack of funds. We recommend that legislation should be introduced at an early date transferring the functions of the Board to an Agricultural Credit Section of the Department of Agriculture; and that the local Societies should gradually be transformed into Co-operative Credit Societies.

A large portion of our Report is devoted to the important subject of Co-operative Credit, for we were early in our sittings convinced that a soundly organised and supervised system of this nature would best supply the special credit needs of the small farmers. Our study of the history of the existing Credit Societies organised under the Irish Agricultural Organisation Society proves that while much good has undoubtedly been accomplished by some of these Societies when well managed locally (about £550,000 has been lent by the Societies in nineteen years) there have been many faults owing mainly to the carelessness of local Committees, the difficulty of finding suitable Secretaries, the absence of sufficient inspection, and, in many cases, too great a reliance upon State loans, which have frequently been treated as permanent grants. Large numbers of Societies have become defunct; of the 310 Societies which have been registered, about 176 may be considered as now in operation, and of these probably 45 per cent. must be regarded as unsatisfactory. Societies which persistently fail to furnish their statutory Returns should be cancelled. Some of the stronger Societies furnish admirable illustrations of what can be accomplished, both in the encouragement of thrift and the making of loans, by co-operative credit under good local management.

In view of the difficulty of inducing medium and large farmers to undertake unlimited liability, and for other reasons, our Report recommends that Credit Societies based on shares and limited liability should also

be established. The existing Acts of Parliament are in many respects quite unsuited for the constitution of Credit Societies, and fresh legislation is therefore essential. From the legal advice furnished to us, it is evident that in several important respects the present Rules are misleading, and are not even in accordance with the *Friendly Societies Act* under which the Societies have been constituted.

There are admittedly many serious obstacles to a growth of deposits in Credit Societies, but even allowing for these, the total of £30,000 in deposits for all Ireland after nineteen years is disappointing; most of this amount is held by a very limited number of Societies. Our Inquiry proves that security is much more influential than the rate of interest in attracting depositors.

At the present stage of the movement a Society is, we believe, in the soundest position when its deposits and loans approximately balance. In view of the convenient overdraft arrangements between Societies and Joint Stock Banks, there is no present need for the establishment of a Central Co-operative Bank or Credit Institution for the purpose of utilising the surplus deposits of Societies, and making advances to them. The experience of other countries reveals the risks and difficulties often connected with these Central Banks, extremely useful as they doubtless have proved. The disadvantages of combining trading operations and banking in a single Society distinctly outweigh, in our opinion, the admitted advantages of such a system.

Although the loans, amounting to £25,000, advanced to Credit Societies by the Department of Agriculture and the Congested Districts Board have been of much assistance to Societies in poor districts, there has been an undoubted tendency in too many cases to regard these loans as permanent grants. Legal action on the part of the Department has already been necessary, unfortunately, in 29 cases, and pressure in 43 cases out of 121 Societies obtaining such loans. On the other hand, the amount written off as irrecoverable has been comparatively small, *i.e.*, £151 in the case of three Societies. The facilities for obtaining State funds at a low rate of interest have tended to discourage the thrift side of the movement. For this and other reasons we recommend that the £11,500 now outstanding in State loans be withdrawn gradually—save in very exceptional cases, where the poverty or remoteness of the district renders the reception of local deposits or the arrangement of a Bank overdraft virtually impossible.

The audit of Societies' books by the I.A.O.S. has been as effective as is possible when the audit is not carried out at the Society's office. We recommend that in future all audits take place on the spot, and that small contributions towards the cost of such audit should be made by the State, (as is done in Germany and elsewhere) but not in cases where the profits admit of the cost being borne by the Society itself.

The I.A.O.S. have been unable, as admitted by their representatives, to furnish as much inspection as they would desire. As a result, many Societies which needed close supervision, especially in the earlier stages, have fallen into very unsatisfactory methods of business. The rates of interest on deposits and loans have not, as a rule, allowed sufficient margin of profit. We propose certain changes to remedy this; we also consider it desirable that in all cases some small remuneration should be given to the Secretary of a Society. Various other suggestions in regard to the constitution and methods of Societies are made to which we have no space to refer here, important through their bearing is, we believe, upon the development of co-operative credit.

On the whole, there seems little prospect of the present system of co-operative credit developing to anything like an extent adequate to the needs of the small farmers and labourers of Ireland. Many witnesses representing Credit Societies urged the need for State supervision to inspire the confidence of depositors and of the rural community generally in these Societies. Sir Horace Plunkett some years ago indicated that later on it might be found desirable that Credit Societies and Live Stock Insurance Societies should be directly organised by the State. The part played by the State in other countries in safeguarding co-operative credit institutions is considerable. But apart from all question of precedent, your Committee (three members dissenting) believe that much would be gained by the establishment of Credit Societies under the supervision of an Agricultural Credit Section of the Department of Agriculture, with the aid of an Advisory Committee on which representatives of the co-operative movement, the Joint Stock Banks and the various State Departments dealing in agricultural loans might be invited to sit. The aid of the Agricultural Instructors (as on the Continent) and of the County Committees of Agriculture (as in the case of the Prussian Chambers of Agriculture) could also accomplish much in the promotion of co-operative credit, and in making its benefits more widely known.

The scheme of State assistance thus outlined is, in our view, free from the objections attached to State loans, and is consistent with the fullest measure of self-help and local responsibility. The Department of Agriculture has for years past dealt to an increasing extent in agricultural loans; its various operations in rural credit, together with the re-organised Loan Fund system, might with advantage be co-ordinated in the proposed Agricultural Credit Section, which would correspond to similar branches of some State Agricultural Departments in other countries. There is, we consider, ample scope in the sphere of rural credit in Ireland for the operations of Credit Societies which may prefer to remain solely under the supervision of the I.A.O.S., and of those Societies formed in connection with the scheme proposed in our Report. Time would bring out the respective merits and defects of each system. The important duties of central supervision and inspection performed by Unions on the Continent would thus be undertaken in Ireland by the Agricultural Credit Section of the Department of Agriculture and by the I.A.O.S.

The figures of the various schemes of loans and grants for agricultural purposes administered by the Board of Works, the Congested Districts Board, the Department of Agriculture, and the Estates Commissioners reveal the large amount of financial aid to Irish farmers annually administered through these channels. In 1913 the State funds thus advanced amounted to over £212,000, of which £42,000 was in free grants. The one feature to which we need refer here is the comparatively small extent to which the useful Land Loan schemes of the Board of Works are resorted to by farmers. The loans given for hay-barns and farm buildings comprised in 1912-13 no less than 97 per cent. of the advances, few loans being obtained for the important purposes of drainage, reclamation, fences, irrigation, &c. The regulations prevent a loan of less than £35 being given, and, in some cases, of less than £50, or even of £100. Tenants under £12 Poor Law valuation and tenant-purchasers under £7 valuation are unable under the Rules to avail of these schemes; while, in addition, difficulties connected with proof of title and initial expenses make the system quite unsuited to the small farmer's needs. As the loan schemes of the Congested Districts Board do not, as a rule, reach farmers above £7 valuation, and only apply in the congested areas, a large number of farmers are ineligible for aid from either of these Departments. The strict requirement as to mortgage security for loans advanced by the Board of Works might be relaxed (by legislation if necessary) so as to admit of personal security being accepted in suitable cases. This plan has been found fully satisfactory in connection with other State

loans to farmers in Ireland, and would undoubtedly greatly extend the operations of the useful schemes administered by the Board.

The information obtained during our Inquiry in regard to the repayment of loans advanced by State Departments, Joint Stock Banks, and other institutions, affords gratifying evidence of the general credit-worthiness and reliability of the Irish farmer. Similar testimony is borne by the figures of the repayment of Land Purchase annuities.

Rural industries in Ireland are frequently handicapped through lack of facilities for obtaining capital at reasonable rates of interest, and with a convenient period for repayment. In many instances a rural industry experiences a demand far exceeding its output, but cannot cope with orders through absence of sufficient working capital. We think it possible that if the Department of Agriculture and Congested Districts Board—after careful inquiry by one of their experts as to the position of an industry in respect of capital, the demand for the product, and the capacity of the business management—were to assist the Joint Stock Banks with full information upon these matters, something could be accomplished towards furthering the development of deserving and struggling industries in rural districts. The question is one admittedly of much difficulty owing to the nature of the security available.

We have devoted special attention to the important question of long-term loans and the mortgaging of land in Ireland, and have been furnished by various Departments with valuable information not hitherto available. The tendency of a peasant proprietary to incur over-indebtedness is a real danger from which the new tenant-purchasers in Ireland should be safeguarded as far as possible, consistently with allowing them in suitable cases to obtain needed advances upon the security of the land—the only security they have to offer. A complete system of compulsory registration of title is an absolutely indispensable condition of every sound system of real credit. While much has been accomplished in Ireland in this direction, much remains to be done; the expediting of the full discharge of equities is especially required. The mortgage indebtedness of Irish land is probably increasing at the rate of about £2,000,000 per annum gross, and about £1,000,000 net.

The limitation upon the powers of mortgaging imposed by the Land Act of 1903, although complained of by some witnesses, seems on the whole a desirable provision against indebtedness; especially as the Land Commission have power to extend the limit in approved cases. It is regrettable, however, that by means of so-called 'judgment' mortgages, the intentions of the legislature can be nullified by collusion between a farmer and his creditor. The Irish Joint Stock Banks are, for various causes, reluctant to lend upon mortgage security alone, or for long terms; their constitution and business methods almost preclude this form of credit. The absence of an amortisation scheme for repayment, and the uncertainty as to when a mortgage may be called in, are serious drawbacks from the borrowing farmer's point of view to this method of obtaining capital. In any case, we believe that the attention of the new holders should be directed rather to making the most of their land by work than to pledging it for the purpose of borrowing; nor should a loan of a large amount be given at one time to a small farmer, save in exceptional cases.

The establishment of a long-term Credit Mortgage institution on *Landschaften* lines may eventually become a necessity in Ireland, if it be not found possible to revise the Land Loan schemes of the Board of Works with a view to their greater elasticity and their adaptation to the needs of small farmers. The development also of the agricultural loan schemes of the Department of Agriculture and of the Congested Districts Board, combined with the agency of Credit Societies for shorter-term loans should, in our opinion, prove sufficient in most cases for the credit requirements of farmers not met by the Joint Stock Banks. The full development of these sources of credit should, at any rate, be thoroughly tested before any experiment based on Continental Land Mortgage Credit organisations be attempted.

We append here a short Index which will facilitate reference to the fuller statements of our Conclusions and Recommendations upon the various important problems of Irish agricultural credit very briefly outlined in this Prefatory Note.

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Departmental Committee on Agricultural Credit in Ireland.

R E P O R T.

TO THE RIGHT HON. T. W. RUSSELL, M.P.,

VICE-PRESIDENT OF THE DEPARTMENT OF AGRICULTURE AND TECHNICAL
INSTRUCTION FOR IRELAND.

SIR,

We were constituted, by your Minute of Appointment, a Committee "to inquire into the existing system of credit available for the rural classes in Ireland; to suggest what, if any, improvements, not involving financial assistance from the Exchequer, should be made in the system; and to consider especially the form of agricultural credit most suitable to the requirements of the occupiers of land affected by the Land Acts in the western districts, and throughout the country generally."

INTRODUCTION.

METHODS OF INQUIRY AND DIVISIONS OF SUBJECT.

1. In accordance with these terms of Reference, we have made careful inquiry in regard to the various systems and methods which are resorted to by the agricultural and rural classes of Ireland for the purpose of meeting their needs in respect of credit and capital. We have given special attention to the requirements of the small farmers who have become, or are about to become, owners of their holdings under the Land Acts; and we have obtained much valuable information on the subject from numerous witnesses who were in a position to speak from practical knowledge and personal experience.

Interpretation of Terms of Reference.

2. In the consideration of the question of possible improvements in the existing rural credit systems, your Committee have had to bear in mind the distinct limitation in our terms of Reference which prevented the proposal of any scheme which would involve "financial assistance from the Exchequer." We have assumed, however, that while direct financial assistance from the Exchequer is precluded, this limitation would not prevent recommendations by us in favour of the further extension or development, if considered advisable, of the various schemes already in operation, under which advances have been made from the funds of the Board of Works, the Congested Districts Board, the Department of Agriculture and Technical Instruction, and the Estates Commissioners, for the purpose of assisting the agricultural industry, whether by direct loans to individual farmers and associations of farmers, by financial aid to Credit Societies, or in other ways.

Further, we have interpreted the words "to inquire into the existing system of credit available for the rural classes in Ireland" as authorising us not only to deal with the financial requirements of the purely agricultural classes, engaged directly in farming operations, but also to consider the needs of small rural industries, carried on in country districts, with a view to ascertaining whether these industries are handicapped in their development for lack of capital on suitable terms. We have therefore taken evidence from several witnesses representing such important rural industries as home-spuns, lace making, small woollen mills, &c.

3. Your Committee think it well to emphasise the fact that we have throughout our Inquiry not lost sight of the important consideration, so amply confirmed by the experience of other countries, and dwelt upon by so many writers on the subject, that undue facilities for credit may be even more injurious in their effect upon the borrower than the lack of proper facilities. Abundant proof has been furnished to us of the frequent injury done to borrowers in Ireland in cases where credit has been supplied without due safeguards as to the character of the borrower, the security for the loan, and the purposes

for which the advance is required. Undue facilities for credit merely entangle the borrower still further in debt; whereas a sound system of credit often enables him after a time to dispense with its aid. Unfortunately farmers too often borrow "not in order to obviate loss, but after the loss has taken place."*

PRESENT IMPORTANCE OF SUBJECT OF RURAL CREDIT IN VARIOUS COUNTRIES.

4. The whole subject of rural credit and of the alleged existing handicaps on agriculture due to lack of suitable credit facilities is one which is at present, to a striking extent, occupying public attention in various countries. The President of the United States some time ago caused inquiries on the subject to be made by the various American Embassies abroad, and a Report based upon these inquiries has been prepared.† The State Department at Washington also sent out in 1912 a list of questions to 9,000 correspondents, with a view to ascertaining how far the credit requirements of farmers were met by the existing banking institutions.‡ In addition a large American Commission (organised by the Southern Commercial Congress), and including representatives from Canada, visited Europe last summer to study co-operative methods in credit and other branches of agricultural organisation.§ The Canadian Parliament recently discussed a Co-operative Agricultural Credit Bill, the Minister of Finance announcing the intention of the Government to consider the whole question. The Premier of New Zealand has also intimated the desire of his Government to establish a system of Co-operative Credit Societies. The President of the Board of Agriculture and Fisheries of Great Britain recently announced in the House of Commons the arrangements made with various important Joint Stock Banks in Great Britain in relation to Co-operative Credit Societies. An exhaustive inquiry has also been made by Mr. J. R. Cahill, on behalf of the Board of Agriculture and Fisheries, into Co-operative Agricultural Credit and Co-operation in Germany. His able Report|| on the subject was issued in April, 1913. These illustrations, which are taken solely from English-speaking countries, and which might be largely multiplied, will suffice to indicate the increasing and active interest now being evinced by various Governments in matters affecting rural credit.

Para 440-1.

MAIN FINDINGS OF REPORT.

5. A Summary of the main findings of our Report is given in the Prefatory Note on pp. 2-4. It may, perhaps, be advisable at this stage to say that, after the most careful consideration of the facts brought before us, we are of opinion that the existing facilities for the supply of credit on sound lines to the smaller and medium rural classes in Ireland are inadequate to their special needs, and require considerable extension. We are also of opinion that the existing economic position of rural Ireland, when so many of the small farmers are passing from the status of tenants to that of occupying owners, affords an exceptional opportunity for establishing on a sound basis a system of agricultural co-operative credit which will go far towards enabling the new proprietors to develop to the utmost the resources of their holdings, and to carry on the business of their farms and homesteads on less wasteful and more economic principles than those which have been so largely followed in the past.

We shall in the course of our Report adduce our reasons for believing that much-needed beneficial improvements can be effected in the small rural credit system of the country without in any way competing with the business of such existing credit institutions as the ably managed Joint Stock Banks, with their widely spread branches. Indeed, the operations of these Banks would, in our opinion, be ultimately increased rather than diminished by the adoption of the proposals contained in our Report. This important aspect of the subject will be dealt with in detail in the sections of our Report referring to the relations of the Joint Stock Banks to Agricultural Credit Societies and to rural credit generally. On the other hand, the injurious operations of moneylenders, of the "trust"

See paras
51-90,
438-45.

* *Problems of Village Life* (E. N. Bennett) p. 202.

† See *Preliminary Report on Land and Agricultural Credit in Europe* (including the letter of President Wm. H. Taft to the Governors of States, and the Recommendations of Ambassador Myron T. Herrick in connection with the proposal of President Taft to introduce Co-operative Credit in the United States.) Senate Document No. 967, Washington, 1912.

‡ See *Report of the Secretary of Agriculture, Washington, 1912.* pp. 25-30.

§ The following Resolution was passed by Congress in regard to this Agricultural Commission: "That the Congress of the United States, in recognition of the valuable service to be rendered the United States in the investigation of the European systems of Agricultural finance, hereby endorses the proposed American Commission, and invokes for it the diplomatic consideration of the countries to be included in its itinerary." A United States Commission was also appointed to co-operate with the American Commission.

|| Cd. 6626-1913, hereafter referred to as *Report on Agricultural Credit and Co-operation in Germany*.

auction system, and of similar unsound sources of credit resorted to by so many farmers in Ireland, would, we are convinced, be largely diminished by the successful carrying out of our proposals.

Number and places of public sittings of Committee.

6. The Committee held their first sittings on the 7th February, 1912. Thirty-four public sittings for the taking of evidence were held between that date and 28th March, 1913. These sittings were held as follows :

Dublin	13	days.
Cork	3	..
Tralee	3	..
Ennis	3	..
Galway	1	..
Westport	1	..
Clones	3	..
Strabane	3	..
Ballymena	2	..
Waterford	2	..

The proceedings were open both to the public and the press. In the case of each of our sittings, notices were inserted beforehand in the local press, setting forth the objects of our Inquiry, and expressing our willingness to consider written statements or oral evidence from any persons who desired to lay their views before us.

Witnesses Examined.

7. The following classes of witnesses were invited, amongst others, to give evidence : — Farmers, especially small holders who could speak from personal experience as to the needs of their class in regard to the credit and capital needed for the stocking and working of their holdings ; agricultural labourers, including representatives of the Land and Labour Association ; shopkeepers, merchants, and auctioneers ; Secretaries and members of Co-operative Credit Societies ; officers of the Irish Agricultural Organisation Society ; the Registrar of Friendly Societies for Ireland ; members of the Loan Fund Board, and Secretaries and Treasurers of Loan Fund Societies ; and clergymen of the various Churches, including many who had taken an active part in promoting the economic welfare of the small farming class in their districts. We invited the various County Committees of Agriculture throughout the country to nominate representatives to give evidence ; the experience of these witnesses as members of the County Committees gave them, in many cases, an exceptional knowledge of the agricultural conditions in their respective counties.

Representatives of the Board of Works, the Congested Districts Board, the Department of Agriculture and Technical Instruction, the Estates Commissioners, and the Land Registry Office gave much valuable and authoritative information in regard to questions affecting the work of these various State Departments, in so far as such work had a direct bearing upon the objects of our Inquiry. As a supplement to the verbal evidence given by the representatives of these Departments, the Committee were supplied with various useful statistical and other Returns, some of which are reproduced in the Appendices. Amongst these we desire especially to mention the Returns furnished to us by the Land Registry, the Registry of Deeds, and the Estates Commissioners in regard to mortgage transactions in Ireland. This information has not, we think, been available to the public before.*

The O'Connor Don, Director of the Bank of Ireland, and Dr. Kyle Knox, a member of our Committee and late Chairman of the Northern Banking Company, were good enough to assist us by giving evidence. Written statements were also received from most of the Joint Stock Banks ; but we regret that, although invited to do so, all but one or two of these Banks felt themselves unable to nominate a witness to give verbal evidence at our Inquiry. We were glad to have the opportunity of examining Mr. Henry W. Wolff, the well known writer upon co-operative questions, and Mr. J. R. Cahill, whose recently issued *Report upon Agricultural Credit and Co-operation in Germany* has already been alluded to.

Information as to Rural Credit Organisations in other countries.

8. We did not consider it necessary for any of our number to visit the Continent to make inquiries with regard to agricultural credit conditions there. Not only had we the evidence and the writings of Mr. Wolff and of Mr. Cahill, who are personally acquainted with continental credit organisations, but we were greatly indebted for information upon

* See paras. 794-823 of Report, and Appendices 14-17 to Minutes of Evidence.

rural credit problems in other countries and the various methods adopted in solving them to the valuable *Bulletins of Economic and Social Intelligence* (issued monthly by the International Institute of Agriculture, Rome) by means of which our labours in the acquiring of the latest intelligence as to foreign conditions have been materially lightened. These Bulletins give in a concise and readable form a record of the most important social and economic movements in agriculture taking place in the various countries of the world. It is a fact of special interest that most of these Bulletins devote a very large portion of their space to questions of co-operative credit, of co-operation in agriculture generally, and the relations of the State thereto, thus affording another proof of the growing and world-wide importance attached to these subjects.

We also obtained through the Intelligence Branch of the Department of Agriculture, and by direct communication with various organisations and individuals in the countries concerned, much useful information in regard to the methods adopted both by private effort and by the State in dealing with rural credit problems in the United States, Canada, India, France, Germany, Italy, &c. Although the economic and social conditions of Ireland differ in many material respects from those which exist in other countries, there are many interesting aspects of similarity between all agricultural communities, especially, as will be shown later, in respect to the difficulties attending the supply of the credit needs of the smaller farmers. Much useful light has thus been afforded us in our consideration of several difficult problems which met us in the course of our Inquiry. We would desire to express our indebtedness to M. Picard, General Secretary of the Bank of France, to M. Alphonse Desjardins, Montreal, the pioneer of co-operative credit in Canada, and to many other correspondents, for the trouble they took in furnishing replies to questions put them by the Committee.

THE LOAN FUND BOARD SYSTEM IN IRELAND.

9. The position of the various Loan Fund Societies working under the supervision of the Loan Fund Board, Dublin Castle, would in any event have naturally come within the scope of an Inquiry dealing with rural credit in Ireland. There was an additional reason, however, why your Committee should give careful consideration to the history, working, and present condition of these Societies. A special Committee was appointed by His Excellency the Lord Lieutenant, on the 10th January, 1912, "to enquire into the financial position of the Loan Fund Board of Ireland, to which attention has been drawn in their recent Annual Reports, and to suggest what steps, if any, may appear desirable." This Committee suggested that a very useful purpose might be served if the operations of local Loan Fund Societies were included within the purview of the Agricultural Credit Committee then about to be appointed. His Excellency conveyed to the Department of Agriculture and Technical Instruction his concurrence in this suggestion. We have, therefore, devoted particular attention to the history and present position of the Loan Fund system.

THRIFT IN RELATION TO RURAL CREDIT.

10. Closely connected with the question of supplying credit and capital for the benefit of the rural classes is the important subject of the encouragement of thrift. These are, indeed, connected as supply and demand. For the supply of capital for agricultural loans should, in the main, come from the savings of rural communities. The evidence which we received showed clearly how interdependent are sound systems of providing capital, and of encouraging at the same time in the borrower proper habits of thrift and a due appreciation of the value of money. We have, therefore, throughout our Inquiry devoted special attention to the subject of rural savings.

THE FUNCTIONS OF CREDIT IN GENERAL.

11. Before entering upon a detailed consideration of the various systems of agricultural credit operating in Ireland, and their comparative success or failure in meeting the special needs of the small and medium farmers, agricultural labourers, and the rural classes generally, it will be well, we think, for the sake of clearness to give at this stage an outline of the chief characteristics of agricultural credit which serve to distinguish it from ordinary commercial and business credit. The chief function of credit, whether in commerce, industry, or agriculture, is to enable the person making use of it to obtain from others, who are willing to entrust their property to his keeping without any immediate return, the use of capital for a period mutually agreed upon. By properly utilising in some productive manner this credit, which often far exceeds in amount any resources possessed by the borrower, the latter is enabled not only to repay in due course to the lender both principal and interest, but also to earn a profit for himself.

12. Obvious benefits to both parties result ; for the lender may not personally be in a position to make such good use of the capital as the borrower. In any case, instead of utilising it directly himself, he prefers to place it at the disposal of the borrower in return for subsequent compensation for the loan of it. On the other hand, the borrower willingly pays for the use of the additional capital, since he finds that he can utilise productively, with advantage to himself, more capital than he possesses. Credit thus enables the special business or other qualifications of those who have little or no capital of their own to be productively employed, when otherwise they would have remained idle. In many instances the personal character of the borrower is the chief, sometimes the only, security which can be offered to the lender. An interesting illustration of this is found in the case of Agricultural Credit Societies.

Generally speaking, therefore, credit does not increase, but merely transfers, productive funds from one person or body to another. When this transfer, however, is to hands which can more efficiently make use of such capital, the total productive activities of the country are increased through the agency of credit, with benefit to all. It is clear that credit of some sort is absolutely essential if anything approaching a proper use is to be made of the capital and natural resources of a country.

Vital importance of credit in modern commerce.

13. The vast extension and popularising of the benefits of credit by means of numerous and highly organised banking concerns of all sorts, which receive large numbers of comparatively small sums in deposits—sums which would otherwise have largely remained idle—and lend them for productive purposes, is a striking illustration of the advantages of a properly organised credit system.

The vitally important place which credit occupies in the business and commercial world is a matter of general knowledge. In modern times an enormous development of this system has been in progress in all civilised countries. Indeed it may safely be said that by far the largest part of the operations of commerce and business is now carried on by means of credit, *i.e.*, through the instrumentality of borrowed capital. Many authorities calculate that at least 90 per cent. of these operations are based on credit. "The manufacturer gives his promissory note for the raw material he purchases, and pays the note at maturity out of the proceeds obtained from the sale of the products. The merchant buys largely on credit, and pays for the goods bought by the funds obtained from their sale. The exporter obtains money from the Bank on the security of his own credit, and that of the very products for which he expends the money borrowed." * In short, the system of credit has been so largely developed in the manufacturing and commercial world that without its assistance the whole structure would speedily collapse, as has been so often seen in periods of commercial crisis.

The Conditions of Credit.

14. The main conditions applicable to credit in general have been so concisely described by Sir F. A. Nicholson, in his well-known and comprehensive Report on Agricultural Credit, that we may with advantage here produce his summary. He says : —

"The conditions of credit may be summed up as follows :—

"Absolute *proximity* of lender and borrower ; complete *security* to the lender as regards the title of the property offered, its freedom from prior encumbrances ; the recovery of his capital and interest at due date in convenient amounts ; with facilities for enforcing such recovery in case of arrears ; thorough *safety* and *facility* to the borrower in his ability to obtain cheap *loans* at any time, to an amount proportionate to the security he can offer ; and upon terms which will be so equitable in themselves, so convenient as regards repayment, so free from all risk of deliberate entanglement, so based upon published rule, so devoid of any tendency to discount necessity or urgency otherwise than by an equitable insurance, that he can calculate on reaping the full fruits of his prudence, and find in credit a powerful auxiliary to his productive powers and stability. In particular the terms of repayment must be such that he can replace the loan from the profits of the transaction for which it was obtained ; an improvement to land must be repayable by instalments over a long series of years ; a purchase of stock must be similarly repayable over a shorter series ; advances upon crops or for maintenance may be repayable in lump or by instalments, according to convenience. It is axiomatic that loans sunk in improvements or enterprises in which the returns are gradual, shall not be repayable except by instalments over a period proportionate to the nature of the enterprise.

"It is . . . certain that the substitution of organised credit for that of the money-lender is a necessary development of civilisation, the individual system is only an elementary stage which must be eventually passed, as general wealth, order, business confidence and habits of association develop. The questions for consideration are the direction in which such credit shall develop, the means by which it can be encouraged, the modes in which it will work, and the effects which it can be made to produce upon the nation." †

* Article on "Agricultural Credit," *Cyclopædia of American Agriculture*.

† Report regarding the possibility of introducing Land and Agricultural Banks into the Madras Presidency, 1895, p. 3.

THE NECESSITY OF CREDIT IN AGRICULTURE.

15. As agriculture is the most ancient branch of productive enterprise, and is still the greatest industry in the world, it is reasonable to suppose that the use of credit which is found to be so absolutely essential in other spheres of industry must be also to some extent a necessity for the agriculturist if he is to make the most of his calling and to extract the greatest possible profit from the soil. The experience of all countries goes to show that this assumption is quite justified. Again we may quote Sir F. A. Nicholson. "The lesson of universal agrarian history . . . is that an essential of agriculture is credit. Neither the condition of the country, nor the nature of the land tenures, nor the position of agriculture, affects the one great fact that agriculturists must borrow. . . . This necessity is due to the fact that an agriculturist's capital is locked up in his land and stock, and must be temporarily mobilised, hence credit is not necessarily objectionable, nor is borrowing necessarily a sign of weakness . . . Credit is a necessity, and borrowing and indebtedness are useful or dangerous in proportion, not merely to the use made of the sums borrowed, but in proportion as they are the result of a prudential foresight, or of necessity extraneous to the demands of agriculture."*

COMPARATIVE FAILURE OF THE AGRICULTURAL INDUSTRY TO UTILISE CREDIT.

16. There is no doubt, however, that credit is not made use of, on sound lines, in the agriculture of most civilised countries to anything like the extent to which it is taken advantage of in other branches of production. When the proprietor of land has recourse to credit, it will be found that very frequently this is obtained in the form of mortgage credit for fairly long terms, rather than in the shape of shorter term credit (resembling current business credit) to provide the necessary capital for the purchase of live stock, feeding stuffs, seeds, manures, agricultural machinery, &c. Again, if a farmer is merely a tenant he is not in a position to pledge, save to a limited extent, real property as security for advances, but only chattel property.

There must be good reasons for the comparative failure of agriculture—an industry which is yearly suffering from severer competition—to utilise more fully the credit so readily available for other productive enterprises. This characteristic of agriculture is the more remarkable in view of the fact that modern credit systems, subject to the stress of increasing competition, are continually seeking fresh outlets for their surplus capital. Yet in spite of this fact, there is, we believe, ample evidence to prove—and practically all authorities who have written upon the subject confirm this view—that our modern banking concerns find themselves unable adequately to place facilities for borrowing on suitable terms within easy reach of the small farming classes; while agricultural labourers, as a rule, are entirely outside the operations of these Banks.

17. It is, perhaps, well to emphasise that we do not advocate borrowing by agriculturists save in those cases where additional capital could be productively used while giving a fair profit on the transaction. A farmer can advantageously make use of credit only under circumstances which would justify a similar process in the case of a wise and thrifty man of business. We may add that in spite of the many difficulties peculiar to agriculture large farmers are, as a rule, in a position to make fairly satisfactory arrangements for the supply of credit adequate to their needs. We have had a good deal of evidence to this effect.

Para. 61.

SPECIAL CHARACTERISTICS OF THE AGRICULTURAL INDUSTRY IN RELATION TO CREDIT.

18. It will help to make clearer some of the many and complex questions dealt with in our Report if we here indicate briefly the main reasons for the apparently almost insuperable difficulties in the way of extending commercial credit so that it may be utilized

* *Report regarding the possibility of introducing Land and Agricultural Banks into the Madras Presidency, 1895, pp. 2, 33.*

for the benefit of agriculture, especially in the case of the small farmers, who in Ireland, as in so many other countries, comprise the majority of the agriculturists. It will be seen that most of these difficulties arise from peculiarities which are inherent in the nature of agriculture as a calling.

(a) *Length of Period of Loan.*

19. An outstanding feature of the farming industry is the length of the period of production, *i.e.*, the length of time usually required before a loan can be repaid from the returns obtained by the outlay. Thus capital expended on seeds or manures cannot be reproduced until the crop is reaped about six months later; while advances obtained for the purchase of live stock, farm implements, &c., usually take at least a year, and often several years, before they can be repaid to the lender with interest, leaving a profit to the borrower. Nature herself has fixed these limits, which the farmer is powerless to alter; whereas the manufacturer or business man can, to a certain extent, shorten at will his periods of production or turn over his stock more rapidly so as to fit in with his credit requirements.

20. The existing commercial banking system has, in its leading features, been gradually evolved to meet the needs of the business and commercial world, not of agriculture. Any authoritative history of banking may be consulted for particulars of this interesting evolution. The Banks in order to make profits for their shareholders must naturally aim at a fairly rapid turnover of their funds. In addition, as they hold most of their deposits at call, or at short notice, they are unable safely to tie up their funds for lengthened periods. The loans which they can advance are therefore as a rule made for only three or four months at a time, the borrower being forced to go through certain formalities if a renewal of the loan is desired at the termination of that period. The loans required by farmers are usually smaller in amount than the average commercial or business loan. These important considerations, in so far as they affect the relations of Joint Stock Banks in Ireland to the small and medium farmers of the country, will be referred to more fully in that section of our Report dealing with "Joint Stock Banks."

Paras. 56-83.

(b) *Seasonal Returns in Agriculture.*

21. Another feature in the economy of agriculture, closely related to that already mentioned, which distinguishes the industry of farming from most businesses and trades save those of a seasonal nature, is that the returns of labour fall, as a rule, in certain fixed periods, with the exception, to some extent, of those cases where mixed farming is undertaken. The great majority of farmers cannot look forward, as most business and tradesmen do, to having a continuous inflow of receipts throughout the year. The farmer must usually await the autumn months when his crops and other produce are sold. Returns are in many cases almost non-existent in the spring of the year, that is during the very period when expenditure on seeds, manures, &c., in connection with the next season's crops has to be incurred. Your Committee have received a considerable amount of evidence as to the indebtedness which small farmers incur for outlays of this nature in the spring time; this important subject will be dealt with more fully when we come to speak of the credit given by shopkeepers to the farming classes. The contrast between this condition of affairs and that which obtains in the majority of business concerns is a striking one and need not be here further emphasised.

Paras. 171-192.

(c) *Risks of Loss peculiar to Agriculture.*

22. There are certain risks in connection with the cultivation of the soil and the rearing of live stock which do not exist to anything like the same extent in most commercial pursuits. Crops vary from season to season, both in quantity and quality, owing to accidents of harvest, disease, pests, weather, &c., over which the most skilful farmer has no control. References will be found in the *Report of the Royal Commission on Agriculture (1887)** to

* Cd. 8540-1898

the great losses caused to agriculturists through a succession of bad seasons. Live stock are similarly liable to various injuries and losses from disease and other causes ; while precautions of insurance of either crops or live stock against loss have not been adopted to any important extent in Great Britain or Ireland. The products of agriculture, therefore, afford, generally speaking, a much more uncertain and risky security for loans than is furnished by the products of commercial and business enterprise.

It must be admitted that with the recent spread of improved scientific methods in agriculture ; with the increased popular knowledge of the principles underlying the operations of farming, due in a large degree to the educational assistance now so generally given to farmers both by the State and by voluntary agencies ; and with the greatly improved methods of dealing with many pests and diseases destructive of crops and live stock, the risks of heavy losses to the farmer have in recent years been materially reduced. The widespread adoption in Ireland of the spraying of potato crops against blight may be cited as one of many examples of this diminution of risk of loss. In spite of such considerations, however, the broad fact still remains that agriculture is a calling inevitably associated with exceptional liability to losses through unforeseen and unavoidable causes.

(d) Difficulty in keeping exact Farming Accounts.

See paras.
183, 634-7.

23. Another feature of the agricultural calling which frequently gives rise to difficulties when land or stock is offered as security for a loan is the difficulty of keeping farming accounts that will show, with any close approach to accuracy, the financial position of the farmer. Naturally this constitutes a handicap in dealing with commercial banking concerns which does not exist in the ordinary business or manufacturing industry, where the science of book-keeping has reached such perfection. As Professor Marshall says in his well-known work :—" The variety in agricultural detail makes the proper keeping of farming accounts very difficult. There are so many joint products and so many bye-products, so many complex and shifting relations of debtor and creditor between the several crops and methods of feeding, that an ordinary farmer, even if he were as fond of accounts as he is in fact averse to them, would have great difficulty in ascertaining, otherwise than by a semi-instinctive guess, what is the price that will just pay him to raise a certain amount of extra produce. He may know its prime cost with fair certainty, but he seldom knows its true total cost ; and this increases the difficulty of reading quickly the teachings of experience, and making progress by their aid. The difficulty is even greater in small holdings. For the capitalist farmer does, at all events, measure the prime cost in terms of money. But the cultivator working with his own hands often puts into his land as much work as he feels able to do without estimating carefully its money value in relation to its product."*

Here we may mention another important difference between the agricultural and the manufacturing industry. Generally speaking, the larger the output of goods by a manufacturer, the lower is the average cost of production ; whereas in farming, on the contrary, the bushels of corn or the tons of vegetables which are added to the ordinary yield are the most expensive to produce, and increase instead of diminishing the average cost of production.

(e) Difficulties of Mortgage Security.

24. Titles to ownership of land are often uncertain, save under a well organised and universal system of compulsory registration of title, as in Germany. Thus this type of security for loans, while in some respects safer than the security of live stock and chattels, contains a considerable element of risk for the lender. Even if the title be good, the creditor often experiences exceptional difficulties in realising his security in case of default, while the market value of land is a very fluctuating quantity. In any event, loans which are made on immovable property and for terms of considerable length cannot meet the current general needs of agriculturists, and are in fact seldom negotiated for such purposes. It is, again, only the owners, and not the tenants of land, who are in a position to offer such security. As will be seen later in our Report, the Joint Stock Banks in Ireland are admittedly unwilling, for the above reasons, to accept to any considerable extent mortgages on land as security for advances made by them. A very considerable amount of mortgaging of land, however, takes place annually in Ireland.

See paras.
830-1.

Paras. 794-811.

* *Principles of Economics*, vol. I. (1895), p. 735.

(f) Absence of the requisite proximity between Lender and Borrower.

25. It is often difficult for the ordinary commercial banks, situated in the cities and towns, to gain the necessary knowledge of the standing of the small farmer, his character for reliability and honesty, and his capacity to conduct his business properly. Many of these farmers reside at a considerable distance from the nearest branch Bank, and attempts at supervision by the latter would in such cases not be feasible. These difficulties do not arise to anything like the same extent when the borrowers are merchants or tradesmen residing in the town, and well known to many of the residents. In such instances the local manager of the Joint Stock Bank has little difficulty in receiving sufficient information to guide his decision, while suitable sureties, known to the manager, are as a rule easily obtainable by deserving borrowers.

Paras. 77-83.

In any case, as might be anticipated, small loans of the sort so often needed by farmers offer little attraction, as a rule, to commercial banks. The profit to the bank on such transactions is trifling, although the administrative expenses, due to cost of staff, &c., are the same as in the case of very much larger loans. On the other hand, the accompanying expenses to the small borrower, due to loss of time, travelling expenses, the entertainment of the necessary sureties, &c., are often very considerable. On these important points we have received much confirmatory evidence from all parts of the country.

Paras. 59, 62-63.

Paras. 84-86.

There are various other causes which militate against the supply of credit on the ordinary commercial lines to agriculture, which will be dealt with in detail as they arise. But this outline of the chief features which by practically universal admission should be found in any credit system claiming to be adequate to the needs of agriculture can, we think, be usefully inserted at this initial stage of our Report. This course will obviate repetition of general principles when the question of the applicability or otherwise of each of the existing credit systems in Ireland to the requirements of the small rural classes comes to be considered.

GROWING NECESSITY FOR EXPENDITURE OF CAPITAL IN THE AGRICULTURAL INDUSTRY.

26. Although the difficulties in adapting commercial credit to the particular needs of agriculture apparently remain to a great extent unchanged in spite of the recent large development of banking institutions, a permanent feature in modern agricultural economy is the growing necessity for capital which improved methods in carrying on the industry have created. A farmer undoubtedly now requires more working capital than he formerly did, if he is to utilise to the greatest advantage the scientific instruction in the best agricultural methods now fortunately available to a greater or less extent in all civilised countries. As will be indicated later, we have had in the course of our evidence proof that in some districts in Ireland small farmers have been unable, through lack of sufficient capital, to put into actual practice the instruction which they received in improved farming methods under the auspices of the County Committees of Agriculture.

In Great Britain and Ireland scientific methods of farming have increasingly become in recent years a vital necessity, in view of the vastly keener competition from the agricultural products of other countries, due mainly to cheaper and improved facilities for rapid transport, methods of refrigeration, &c. This necessity for improved scientific treatment of the soil naturally entails a greater expenditure by the farmer upon agricultural machinery and implements, and upon better fertilisers and manures. In addition, the cost of living has in recent years largely increased, while there has not been a corresponding increase in the market prices obtained by the producers of agricultural commodities, save in exceptional cases. The scarcity of agricultural labour is also a marked feature of the existing rural economy of Ireland. To this subject we shall return when dealing with the credit needs of agricultural labourers, a class for whom the usual commercial banking credit is to a peculiar extent unavailable.

See paras.
503-3D.*Improved farming and business habits of the Irish rural classes.*

27. The education, theoretical and practical, imparted by the Itinerant Instructors in Agriculture has undoubtedly led to much more attention being paid to the quality of seeds and manures; several witnesses of the small farmer type who appeared before us showed that they possessed a considerable amount of knowledge on these matters so

essential to the success of agricultural operations. It is obvious that this subject is one which has an important bearing upon agricultural credit in general, for unless a farmer has sufficient command of credit and capital to permit of his buying his agricultural requirements in the open market in the most economical way, he cannot hope to be in a position to secure goods of the best quality.

The thriftless and often reckless methods of obtaining funds for urgent needs which have driven and continue to drive so many of the small agricultural classes into the hands of money-lenders can never in our opinion be successfully done away with, save by placing within the reach of these borrowers a sound system of rural credit, enjoying the full confidence of the people, and as easily accessible as the injurious credit of the money-lender and the "trust" auction. As farming becomes more and more a regularly organised business, in which scientific and business methods of production and marketing must be employed, so will it rightly continue to demand improved credit facilities. Your Committee have had a good deal of evidence showing that in Ireland a very gratifying change is taking place in the farming and business habits of the rural classes, who are beginning to realise the necessity for placing their industry on a sounder basis. Amongst the chief causes to which witnesses have attributed this notable improvement are the scientific and practical instruction imparted through the various agencies of the Department of Agriculture and Technical Instruction, and the County Committees of Agriculture; the growth of co-operative organisation promoted by the Irish Agricultural Organisation Society; and perhaps, above all, the beneficent working of the Land Acts, by means of which the farmers are gradually becoming owners of their holdings and acquiring the sense of proprietorship in the soil.

CO-OPERATIVE AGRICULTURAL CREDIT IN OTHER COUNTRIES.

28. In the course of our Report we shall give brief descriptions of the various methods which have been adopted in other countries to solve the problems attached to the supply of rural credit, in so far as such methods appear, in our opinion, to have a distinct bearing upon the conditions in Ireland. The numerous and exhaustive reports and articles which have been published during recent years upon Continental agricultural credit institutions will render it unnecessary for us to enter into any elaborate detail upon a subject so large and complicated. The references which we give in our foot-notes to various authorities, together with the Bibliography included in our Report, will, we trust, facilitate those who may wish to pursue the study of any particular aspect of the subject. It may, however, safely be said that for a careful and comprehensive survey of the many types of agricultural credit institutions in Europe, Sir F. A. Nicholson's Report, written for the Madras Government, and published in 1895, though necessarily now out of date in many details, still remains an unequalled treasure-house of information.

Conspicuous among the methods successfully adopted by various countries to supply the credit needs of small agriculturists is the system of Co-operative Credit Societies, whether based on the main principles of Raiffeisen or Schulze-Delitzsch, or on a combination of both these principles. The wide and beneficial development of this system in Germany (where it had its birth), France, Italy, India, Russia, Japan, and other countries, is one of the most remarkable phenomena of rural economy in modern times.

Detailed consideration given to Irish Co-operative Credit system.

29. Your Committee naturally devoted much attention to the system of Agricultural Credit Societies established in Ireland during the last nineteen years under the auspices of the Irish Agricultural Organisation Society, and avowedly based on the Continental Raiffeisen model, including the principle of unlimited liability. A large portion of our Report is necessarily occupied with a detailed consideration of this method of supplying rural credit. We have carefully considered the question as to how far the existing system meets, or seems capable of meeting, on a satisfactory scale the needs of the small farmers and agricultural labourers of Ireland. We have given much time and thought to the consideration of the question as to how far, if at all, any changes in the organisation, constitution, and supervision of these Societies seem called for as likely to lead to their increased development and a wider extension of the benefits undoubtedly conferred by the system when properly worked. We arranged, therefore, to hear many witnesses on this subject, including representatives of the Irish Agricultural Organisation

Society and Secretaries and members of Credit Societies in all parts of the country, who have given us, from their practical experience of the working of the Societies, much valuable aid in coming to the conclusions arrived at.

GENERAL OUTLINE OF SUBJECTS DEALT WITH IN REPORT.

30. Having thus outlined the chief features of agricultural credit which must be kept in view in any adequate treatment of the problem, and given a sketch of the general plan upon which we have gone in preparing our Report, we now proceed to a detailed consideration of the existing recognised credit and thrift institutions in Ireland, and also of various other sources of credit which are made use of, to a greater or less degree, by Irish agriculturists and the rural classes generally.

For convenience' sake we propose to treat these institutions and methods in the following order :—

- (I.) Joint Stock Banks.
- (II.) Post Office and Trustee Savings Banks.
- (III.) Moneylenders and the Agricultural Classes.
- (IV.) ' Trust ' or ' Credit ' Auctions.
- (V.) Credit advanced to farmers by Shopkeepers.
- (VI.) The Loan Fund Board System in Ireland.
- (VII.) The Co-operative Credit Movement in Ireland.
- (VIII.) Agricultural Loans and Grants administered by State Departments.
- (IX.) The Credit needs of Rural Industries.
- (X.) Mortgage or Long Term Credit.

31. Our principal conclusions and recommendations in regard to the various subjects of inquiry will be found at the close of each separate Section of the Report. An exhaustive Synopsis of Contents has also been prefixed to the Report (see pp. iv.-xvi.), in order further to facilitate reference to any desired portion.

In a Prefatory Note (see pp. 2-4) will be found in a convenient form the main findings of our Report.

SECTION I.

JOINT STOCK BANKS IN IRELAND.

In any consideration of the subject of rural credit in Ireland the position of the Joint Stock Banks of the country in relation thereto naturally claims a prominent place.

Origin of the Banking System.

32. The history of the development and growth of the great modern Joint Stock Bank system forms one of the most interesting pages in economic study. Banking in many of its forms was known to the ancients, especially to the Greeks and Romans. During the Middle Ages the Jews of Europe, in their capacity of the world's money-lenders, carried on some of the functions of Banks. The origin of modern Banking, however, is, according to most authorities, due to the merchants and money-lenders of Venice, Genoa, and especially of Florence, who were famous throughout Europe in the middle of the Fourteenth Century, though the Bank of Amsterdam, formed in 1609, was perhaps the first to undertake the chief function of a modern Bank—the safe keeping of depositors' money, available at call.

Banking in Great Britain.

33. The banking history of England begins with the Goldsmiths of London, who in the Seventeenth Century received deposits of money and valuables against which they issued receipts or "notes." The foundation of the Bank of England in 1694 was, however, the real commencement of the banking system in that country. The Bank of Scotland was founded in the following year (1695), but although in that year the principal merchants of Dublin met and presented a memorial to the Irish House of Commons, recommending the establishment of a public Bank, nothing was done. In 1720 the king was petitioned by Lords Abercorn, Boyne, and other influential persons for permission to start a public Bank. The matter was referred to the Irish Parliament, but in 1721 the House of Commons rejected a bill for the establishment of the Bank. The House of Lords took the same view, probably in consequence of the violent opposition of Swift. Berkeley's *Querist* (1735) shows that he was strongly in favour of the creation of a public Bank. In fact, however, the first Irish Joint Stock Bank, *i.e.*, the Bank of Ireland, did not come into existence until 1783, by an Irish Act of Parliament (21 and 22 Geo. III., c. 16). This Act prohibited any other company of more than six persons from issuing notes payable on demand or within any time less than six months.

SKETCH OF THE DEVELOPMENT OF BANKING IN IRELAND.

34. We do not propose in our Report to enter into any elaborate description of the Joint Stock Bank system of Ireland. Full details on the subject will be found in "*Gilbart on Banking*," in Dillon's "*History and Development of Banking in Ireland*" (1889), and in similar works; while a useful and concise article on the subject appeared in "*Ireland: Industrial and Agricultural*," a volume issued by the Department of Agriculture and Technical Instruction. In order, however, to show how rapid has been the growth of the Joint Stock Banks in this country in recent years, we think it desirable to insert the following brief historical summary.

After its foundation under Charter dated May 15th, 1783, the Bank of Ireland had as its only competitors the private banks which had gradually been established in Dublin and the chief provincial towns. These institutions proved to be very unsatisfactory, and a series of failures occurred in the period 1810–1820 which led to an amendment of the law. In 1821 (by 1 and 2 Geo. IV., c. 72), Banking Companies, having any number of partners, were allowed under certain conditions to exist outside a radius of fifty Irish

miles around Dublin. This restriction as to radius was, however, removed in 1845 (8 and 9 Vict., c. 37.) In 1824 the Northern Banking Company was established : and in 1825 two other new Banks came into being, *i.e.*, the Hibernian and the Provincial Banks. The law, which had been construed to require every partner in an Irish Joint Stock Bank to be a resident in Ireland, prevented progress for some months, but after an Amending Act of 1825 (6 Geo. IV., c. 42), branches of the Provincial Bank were opened in Cork, Limerick, Clonmel, and Derry. In 1826, Branches of this Bank were opened in Sligo, Wexford, Belfast, Waterford, and Galway ; in 1827 further Branches were established in Armagh, Athlone, Coleraine, and Kilkenny ; and succeeding years saw continuous additions to the number. Stimulated by this competition, the Bank of Ireland soon opened Branches in Cork, Waterford, Clonmel, Derry, Belfast and Westport.

Many of the private Banks through the country failed, as we have said, especially in the crisis of 1823, and thus caused great loss and suffering. The failure in 1836, through mismanagement, of the Agricultural and Commercial Bank of Ireland also created much alarm and gave rise to a big demand for gold.

35. The Belfast Banking Company started business in 1827 ; and in 1835 Daniel O'Connell founded the National Bank, which was established at Carrick-on-Suir. It was intended chiefly as a poor man's Bank "to enable the lower classes to invest their small savings, and thus get an interest for their money, instead of trusting their pound notes to the fortunes of an old stocking or a cracked tea-pot, or even a hole in the thatch."

The Ulster Bank began operations in Belfast in 1836. The Royal Bank of Ireland was founded in the same year. In 1864 the Munster Bank was established in Cork, and soon after took over the business of the Union Bank, an English Co. which had started in the South of Ireland in 1863. The Munster Bank suspended payment, however, in 1885, and was replaced by the Munster and Leinster Bank.

Authorised Note Circulation of the Six note-issuing Banks.

36. The following six of the existing nine Irish Joint Stock Banks are authorised to issue notes. The table shows for each Bank the amount of the authorised circulation of these notes :—

	£
Bank of Ireland	3,738,428
Provincial Bank of Ireland	927,667
National Bank	852,269
Ulster Bank	311,079
Belfast Banking Company	281,611
Northern Banking Company	243,440
Total	£6,354,494

The Banks can, however, exceed the note issue authorized by certificate, provided they hold—at certain head offices or principal places of issue—coin against the surplus note issue. Of this coin, the silver must not exceed one-fourth part of the gold.*

The Irish Bank Act of 1845.

37. In 1845 the Irish Bank Act (8 and 9 Vict., c. 37) was passed, which removed the only remaining vestiges of the monopoly of the Bank of Ireland, and accordingly opened the whole country to Joint Stock enterprise. Under this Act limitation of note issue was provided for, issuing Banks were required to render accounts every four weeks of their note circulation and stock of specie at the Head Office and principal places of issue, to the Commissioners of Stamps and Taxes, who were also empowered to cause an inspection of books ; and Promissory Notes or Bills of Exchange for sums under £1 were made negotiable. Several other important provisions that we need not specify here were embodied in this Act, which laid down the main principles for the conduct of Banking in Ireland.

Recent great extension of the Joint Stock Banking system in Ireland.

38. It will be seen that the present extensive system of Joint Stock Banks in this country, with their numerous branches and sub-branches, is of comparatively recent growth. It is difficult to realise that within the lifetime of living men there were no Joint Stock Banks or Branches in Ireland, save the Head Office of the Bank of Ireland. From the latest figures available, furnished to us by each of the nine Irish Joint Stock Banks, it appears that these Banks in April, 1913, had 853 Offices and Branches. The following Table gives particulars showing in the case of each Bank the number of its

* See Sections 19 and 20 of 8 & 9 Vict., c. 37.

Head Offices, Branches, and Sub-Bran­ches or Agencies (these last being open only on certain days, such as fair or market days, &c.) :—

	Number of Head Offices and Branches always open.	Number of Sub-bran­ches or Agencies (i.e., Offices open on Market or Fair Days only, or both).	Number of Sub-bran­ches or Agencies open Weekly, and on Fair Days.	Number of Sub-bran­ches or Agencies open Weekly Fortnightly, &c.	Number of Sub-bran­ches or Agencies open on Special occasions.	TOTALS.
Bank of Ireland ..	71	14	13	5	2	105
Belfast Banking Co. ..	48	6	10	13	1	78
Hibernian Bank ..	50	13	4	16	1	84
Munster & Leinster Bank	61	5	17	5	—	88
National Bank ..	91	13	10	11	—	125
Northern Banking Co.	63	5	13	24	1	106
Provincial Bank ..	58	14	7	8	1	88
Royal Bank ..	10	1	—	2	—	13
Ulster Bank ..	77	89	—	—	—	166
TOTALS, ..	529	160	74	84	6	853

From this Table it will be seen that only 62 per cent. of the Irish Bank Offices are always open, (as compared with 77 per cent. in England, and 98 per cent. in Scotland).

Figures showing growth of Bank Offices in Ireland since the year 1850.

39. The steady growth in recent years of the Joint Stock Bank organisations in Ireland may be seen from the following figures, showing for every 10 years the number of Bank Offices open since 1850 :—

	1850	1860	1870		1880		1890		1900		1910	
	Offices open	Offices open	Head Office and Branches open	Sub- Branches and Agencies open	Head Office and Branches open	Sub- Branches and Agencies open	Head Office and Branches open	Sub- Branches and Agencies open	Head Office and Branches open	Sub- Branches and Agencies open	Head Office and Branches open	Sub- Branches and Agencies open
Bank of Ireland ..	24	27	37	2	58	2	59	1	61	7	70	26
Belfast Banking Co. ..	21	24	33	—	37	—	38	22	45	26	47	30
Hibernian Bank ..	5	4	17	2	39	12	37	16	42	27	47	32
Munster and Leinster	—	—	30*	6*	44*	4*	38	12	44	12	54	26
National Bank ..	48	50	55	—	83	27	85	9	87	12	90	29
Northern Banking Co.	12	13	33	9	48	19	49	32	53	40	60	41
Provincial Bank ..	38	42	44	—	47	—	51	4	52	12	55	30
Royal Bank ..	1	1	5	—	6	—	8	—	8	—	9	3
Ulster Bank ..	16	19	31	—	53	—	56	52	64	69	73	87
Tipperary Joint Stock Bank†	9	—	—	—	—	—	—	—	—	—	—	—
			285	19	415	64	421	148	456	205	505	304
TOTALS ..	174	180	304		479		569		661		809	

* These figures refer to the Munster Bank, which was established in 1864, and in 1885 was replaced by the Munster and Leinster Bank.
† Ceased operations in the year 1856.

These Tables show that since the year 1850 there has been an increase of over 390 per cent. in the number of Joint Stock Bank Offices in Ireland.

Map showing Bank Branches, Sub-bran­ches and Agencies in April, 1913.

40. We insert in our Report a Map which shows at a glance the number and distribution of the Branches, Sub-bran­ches and Agencies of the nine leading Irish Joint Stock Banks in the month of April, 1913. This Map illustrates more forcibly than any array of figures could possibly do how widely distributed over the whole country, in rural as well as in urban districts, are the offices of these Banks.

See Map facing
p. 386

Permanent Branch Banks at only 242 separate centres.

41. In numerous cases competing Branches of several different Banks exist side by side in the same town. In some provincial towns, such as Armagh, Ballymena, Coleraine, Dundalk, Kilkenny, there are as many as five or six separate Branches of various Banks, while in numerous other towns there are three or four separate Branches. An analysis of the latest figures goes to show that in 242 towns and villages of Ireland there is an Office of a Joint Stock Bank always open, while in practically the same number, *i.e.*, 246, there is a Sub-Branch, open only on certain days, such as market or fair days, weekly, fortnightly, &c.

As pointed out by the O'Connor Don, Director of the Bank of Ireland, there is ⁵⁸¹ approximately one Branch Bank open for every 5,000 persons in Ireland,* or one for every thousand heads of family. If only the Offices which are always open are taken into account, the figures would be one such Office for every 8,300 persons or for every 1,600 heads of family. The fact that there are two, four, or even six Bank Offices in the nearest town does not, of course, in any way lessen the inconvenience and loss of time and money for the farmer who may have to come in from a distance. Hence, in reckoning banking facilities for the rural population, it is rather the number of banking centres than the number of Branches or Sub-branches which should be chiefly taken into account. There are in all Ireland, as we have seen, only 242 centres where a permanent Branch Bank is established. There is, therefore, only one such centre to every 18,000 persons. If the Sub-Branches, which are open only on certain days, be also included, there is one such banking centre for every 9,000 persons.

42. Accordingly, in spite of the great extension of Bank Offices, there are many considerable tracts of country, some of them fairly well populated, where no Branch yet exists, and where, as a matter of fact, it would not pay a Joint Stock Bank to open an office. This is especially the case in the west of Ireland. In the course of our evidence we have had brought before us instances where persons in order to reach the nearest Branch Bank would have to travel forty miles. This is doubtless an extreme case, but it is not at all unusual for farmers to have to make a journey of ten or fifteen miles to the nearest Bank.

Only 62 per cent. of Irish Bank Offices are permanently open.

43. As pointed out in an interesting article in the *Bankers' Magazine* for February, 1914, the proportion of Irish Bank Offices which are not open every day in the week to those which are thus permanently open is much larger in Ireland than in England or Scotland. The following Table is taken from the article referred to.

	NUMBER OF BANK OFFICES.*				
	Open Daily.	Per cent. of Total.	Not open Daily.	Per cent. of Total.	TOTAL.
England and Wales ..	5,342	77	1,631	23	6,973
Isle of Man	24	100	—	—	24
Scotland	1,222	98	34	2	1,256
Ireland	539	62	324	38	863
TOTAL, ..	7,127	—	1,989	—	9,116

*The figures in this Table are those for 31st October, 1913.

It will be seen that while in Ireland 38 per cent. of the branches are open only on market or fair Days, in England the corresponding percentage is 23 (1,631 Branches out of 6,973), and in Scotland the percentage is only 2, *i.e.*, out of 1,256 Scotch Branch Banks, only 34 are not always open. It would appear that in Scotland this figure has remained at 2 per cent. for the past 26 years, while in England the percentage has increased from 12 to 23 in that period, and in Ireland from 24 to 38.

44. Although the Irish Banks by this increase of Sub-Branches open only on fair days, &c., evince a desire to extend their operations in the rural districts and to facilitate regular customers (in places where it would not pay to create a permanent branch) by bringing banking facilities within their reach on the days when they would in any case be visiting the town to attend the market or fair, it is, we think, obvious that it is not possible for a few officials, in a few hours once a week or so, to gain the same acquaintance

* In 1851 there was only one Banking Office in Ireland for every 37,600 persons; in 1881, one for every 10,700 persons; and in 1891, one for every 8,200 persons.

with the circumstances of the small farmers of the district as the local manager of a permanent branch would do. The contrast between Ireland and Scotland, with populations of about the same size, in respect of the proportion of banking offices always open, is rather striking, but different economic conditions in the two countries to some extent account for this contrast.

It would seem that rarely outside the United Kingdom and France does the term "banking office" represent anything but an office open daily.

Net increase in Banking Offices between 1876 and 1913.

45. The total net increase in the number of Banking Offices between the years 1876 and 1913, in each of the divisions of the United Kingdom was as follows :—

				Net Increase.
England and Wales	4,786
Isle of Man	13
Scotland	366
Ireland	366
Total	5,531

In Ireland and Scotland, therefore, about 10 new Offices have been, on the average, opened annually during the period referred to, after allowing for 177 offices closed in Ireland, and 344 closed in Scotland during these years. During the same period 248 branch offices were opened in Ireland in places where no office previously existed.

Banking Facilities in various countries in relation to population and area.

46. The following figures giving the number of Banking Offices in some of the leading countries of the world in the year 1912, and also the proportion of such Offices to the population and area, were supplied by Mr. J. R. Cahill in connection with his evidence.*

Country.	Banking Offices.	Inhabitants per Office.	Square Miles per Office.
BRITISH EMPIRE :—			
England and Wales (including Isle of Man).	6,733	5,379	8·7
Scotland	1,235	3,854	24·6
Ireland	841†	5,220	38·5
TOTAL FOR UNITED KINGDOM	8,809‡	5,150	13·8
Canada	2,933	2,456	1,271·6
Australia	2,043	2,179	1,455·9
New Zealand	392	2,572	266·2
Union of South Africa	460	12,985	1,028·5
FOREIGN COUNTRIES :— §			
Argentina	385	17,334	2,950·3
Belgium	260	28,809	43·7
Denmark	700	3,964	22·2
Finland	550	5,664	228·6
France	4,400	9,000	47·0
Germany	13,000	4,994	16·0
Holland	500	12,045	25·2
Italy	1,700	20,395	65·0
Norway	640	3,737	193·9
Sweden	650	8,496	265·9
Switzerland	900	4,158	17·7
United States of America	29,000	3,711	123·1

*See also Mr. Cahill's Note on Banking Facilities in various Countries, Appendix 3 to Minutes of Evidence.

†This number had risen to 863 in October, 1913.

‡Includes 158 offices of Colonial and Foreign Banks doing business in England.

§In the case of those European countries where Savings Banks are of a public character, and are authorized to invest their funds, in whole or in part, at their discretion, such Savings Banks have been included in above Table.

It should be mentioned that the figures which we make use of in reference to Joint Stock Banks in Ireland apply only to the nine leading Banks. Any Joint Stock Bank registered in Great Britain may, we understand, at any time, open a branch in Ireland without any process of registration in this country; but the number of such Banks in Ireland is insignificant, and would not materially affect any of the figures quoted by us, or the deductions based upon them.

OVER 62 MILLIONS IN DEPOSITS AND CASH BALANCES IN IRISH BANKS.

47. From the Banking statistics issued by the Department of Agriculture and Technical Instruction it appears that the total deposits and cash balances in Irish Joint Stock Banks amounted, on 31st December, 1913, to the huge sum of £62,142,000. The steady and remarkable growth of these cash balances in recent years may be seen from the following figures:—

Year.						Amount of Deposits and Cash Balances on 31st Dec.
						£
1840*	5,568,000
1850	8,269,000
1860	15,609,000
1870	24,366,000
1880	29,746,000
1890	33,325,000
1900	43,280,000
1910	54,936,000
1912	57,651,000
1913	62,142,000

Chart showing growth of deposits in Joint Stock Banks, and in Post Office and Trustee Savings Banks.

48. A comprehensive Chart, showing the growth of the Deposits and Cash Balances in the Irish Joint Stock Banks, Post Office Savings Banks, and Trustee Savings Banks will be found facing page 22.† It will be observed that in the last 73 years there has been an increase in the deposits and cash balances in the Irish Joint Stock Banks of no less than £56,574,000, or over 1,016 per cent. During the last 23 years the increase has been £28,817,000, or 86 per cent., and during the last 13 years, £18,862,000 or 43 per cent.

Bank Deposits in their relation to national savings and productive enterprise.

49. The Department in issuing the statistics of banking deposits state:—"These figures are of considerable interest as indicating the growth of the operations and influence of Banking in Ireland. They do not, however, in themselves gauge the growth of 'net savings.' Such a growth and its extent could only be determined by a complete account of savings on the one hand, and of indebtedness on the other." The Department add that complete data for the latter account are not available, but that it is estimated that the amount due to the Joint Stock Banks on the 31st December, 1913, on account of Bills Discounted, Advances to Customers, and Loans on Security, was about £47,000,000.

A deduction which is sometimes based upon the large Joint Stock Bank deposit figures is that they represent so much money "lying idle in the Banks" which could be more profitably utilised by the owners, and with greater benefit to the economic progress of the country as a whole, by investment in industrial enterprise. It should be borne in mind, however, that the Banks, after investing a proportion in realisable securities, lend out the greater part of these deposits to customers, either by way of Bill, loan, or on current account. Much of this credit so advanced is made use of by the borrowers for productive purposes, either in industry, commerce, or agriculture; but we are not in a position to say what proportion of this capital may be utilised outside Ireland by the

See paras.
12, 13.

* Complete statistics are not available before 1840.

† The figures utilised in the preparation of this Chart are taken from the following sources; (a) from 1840 to 1883, Dr. Hancock's returns; (b) from 1883 to 1900, the Registrar-General's returns; (c) from 1900 to 1913, the returns of the Department of Agriculture and Technical Instruction.

Irish Banks. We have already referred in the introductory portion of our Report to the beneficial methods by which modern banking institutions transform into the shape of credit a large number of small deposits the greater portion of which would not otherwise have been utilised productively.

The whole question is a complex one ; we think it well, however, to point out that erroneous conclusions in opposite directions as to the economic condition of Ireland are at times based upon the figures of the Joint Stock Bank deposits. After all necessary allowances have been made for indebtedness on the *contra* side of the account, and for other factors in the situation, the gratifying fact remains that the rapidly increasing deposits in the Joint Stock Banks, taken in conjunction with a steady increase in the Post-Office Savings Bank deposits, are undoubtedly to a large extent an indication of the growing economic prosperity of the country, a progress of which your Committee have received much welcome confirmatory proof during their sittings.

Seasonal Changes in Bank deposits.

50. An examination of the figures of the Irish Joint Stock Bank deposits for the last twenty years shows that only in two years (1901 and 1905) of this period have these deposits on the 31st December shown a decrease as compared with the corresponding figures for the previous year. On the other hand, it is of interest to note that if the figures for the 30th June are compared with those for the preceding 31st December a *decrease* has been shown in thirteen of the last twenty years. This has been referred to as an illustration of the seasonal nature of the agricultural industry, the farmer's receipts mainly coming in during the autumn months, enabling him to make deposits in the Banks ; while his expenditure is heaviest during the spring months, necessitating during that season a withdrawal of deposits to meet the cost of purchase of seeds, manures, &c. Banking returns in general, apart from agricultural business, often show similar seasonal fluctuations.

Savings Bank as contrasted with Joint Stock Bank Deposits.

51. The observations which we have made in regard to the complex banking questions connected with the Joint Stock Bank deposits are not applicable to the deposits in the Post Office and Trustee Savings Banks, which definitely represent actual deposits of cash, with no *contra* account for indebtedness. In the next section of our Report we shall deal with these large deposits and the desirability of utilising a portion of them for the development of agricultural credit in Ireland, instead of allowing them to be almost totally lost to the country by transfer to England for investment in Government securities.

See paras.
103-131.

IRISH JOINT STOCK BANKS AND THE SMALL FARMER.

52. From the facts which we have indicated in bare outline it is evident that the Joint Stock Banks occupy a very important place in the industrial and agricultural economy of this country. The steady increase in the business transacted and in the deposits received by them, together with the large extension of their branches, furnish ample proof of this. In view of the importance and wide expansion of the Joint Stock Banking system, and its unchallenged position as the main source of credit for the population, your Committee naturally considered it essential that they should devote very special attention to the question as to how far this system at present meets, or could be adapted to meet still further, the special needs of the small farmers requiring credit and capital for the proper stocking and working of their holdings.

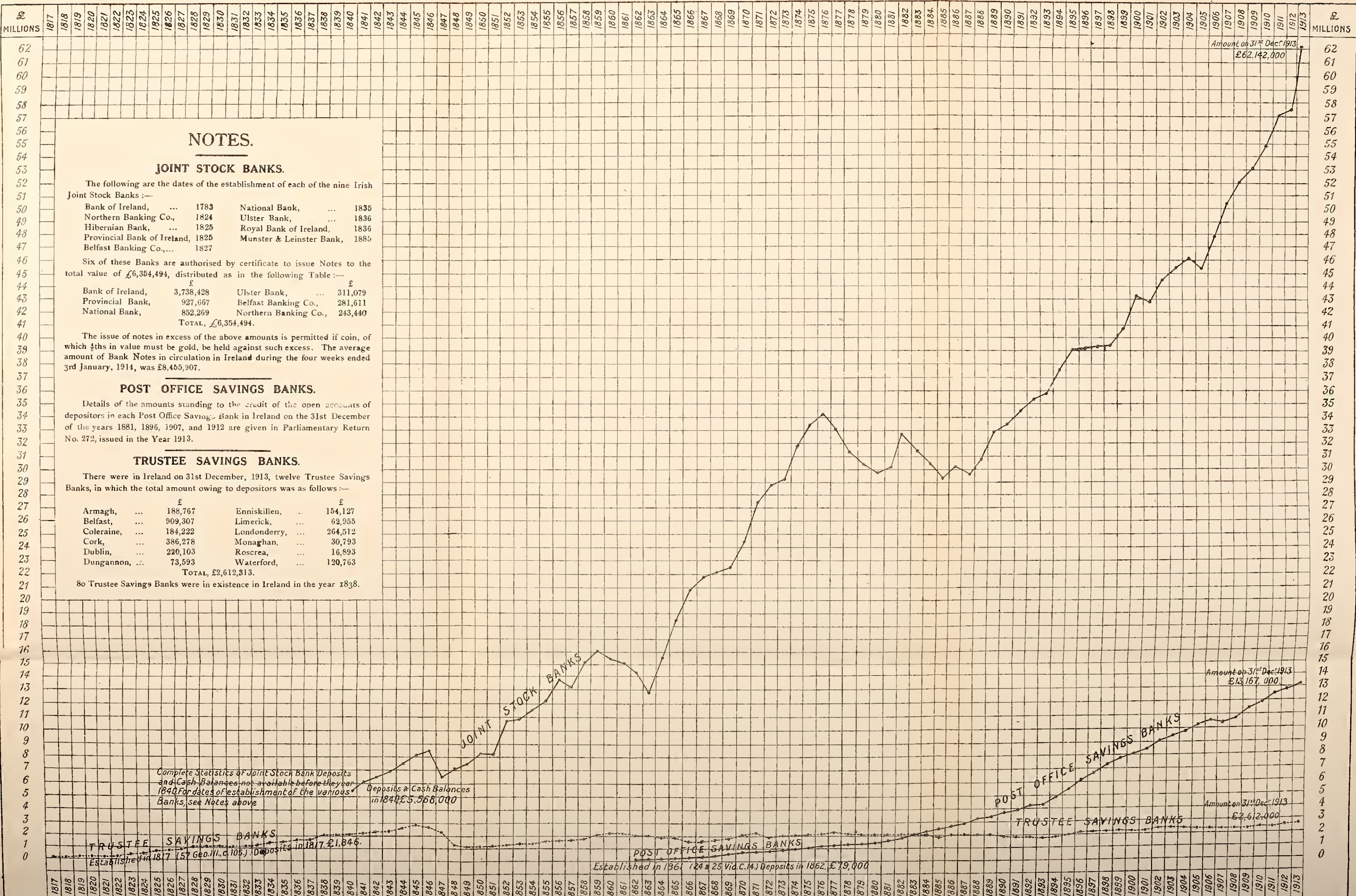
At our sittings in the Provinces we had numerous witnesses before us who represented the class of small farmers, many of whom had recently become owners of their holdings under the Land Acts. Numerous witnesses who appeared in their capacity as officials or members of Credit Societies, &c., were also of the farming class. We obtained, therefore, much valuable first-hand information as to the personal dealings of small farmers with the Joint Stock Banks, the terms on which advances could be obtained by them or their friends, the suitability of such terms to their particular requirements, the attendant expenses incurred in connection with the obtaining of sureties, the loss of time often entailed on both borrower and sureties, and many other useful particulars.

Invitation to Banks to furnish evidence to Committee.

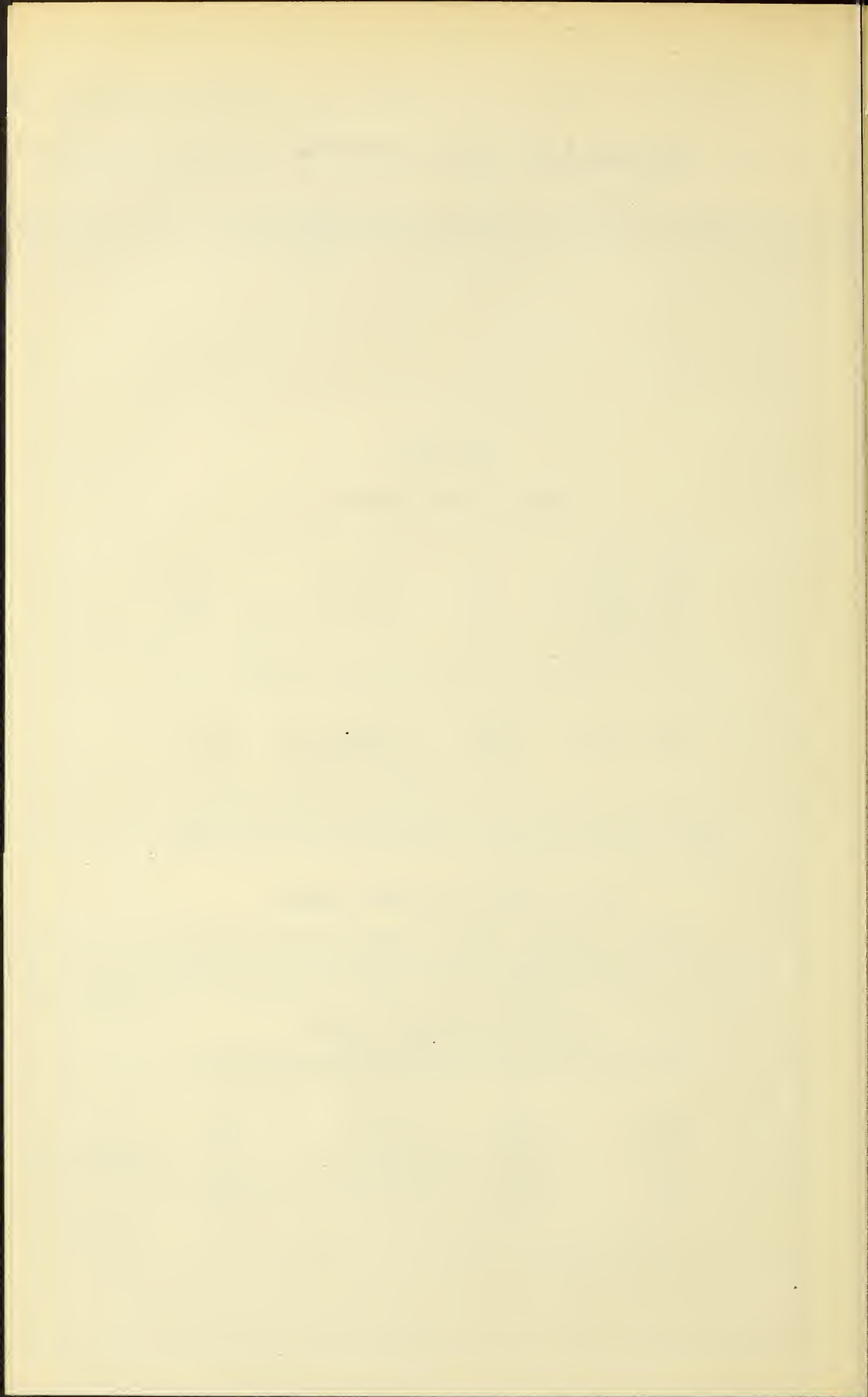
53. Not only did we make every effort to obtain this first-hand and reliable information from farmers who could speak from personal knowledge of their dealings with the Joint Stock Banks, but we also were anxious to obtain evidence from the point of view of the

DEPARTMENTAL COMMITTEE ON AGRICULTURAL CREDIT IN IRELAND.

DIAGRAM showing DEPOSITS and CASH BALANCES in the JOINT STOCK BANKS, and DEPOSITS in the POST OFFICE SAVINGS BANKS and TRUSTEE SAVINGS BANKS of Ireland, on 31st December of each year indicated.



On 31st December, 1913, the Deposits and Cash Balances in the Joint Stock Banks (£62,142,000) and the Deposits in the Post Office Savings Banks (£13,167,000) and Trustee Savings Banks (£2,612,000) amounted to a Gross Total of £77,921,000.



Banks themselves. At the commencement, therefore, of our sittings we furnished each of the Banks at their Head Offices with a memorandum setting forth the general scope of our Inquiry and indicating some of the aspects of the subject upon which the Committee would be glad to receive any available information which the Banks might be in a position to give. We invited them to be good enough to furnish written statements, and also to nominate one or more representatives to give evidence before us. Our invitation concluded as follows :—

“ The Committee are, of course, aware that much of the information on the above matters in the possession of the Banks is of a confidential nature, and could not properly be given in detail to the Committee. It is hoped, however, that without entering into specific details in regard to persons and places, where such course would be undesirable, the Bank may be able to furnish sufficient information in regard to the general principles underlying its dealings with agricultural credit as to be of much assistance to the Committee in their inquiry into a subject which so vitally affects the economic progress of the country.”

54. In response most of the Banks sent short written statements, which will be found reproduced in the Appendices to the Minutes of evidence.* It will be seen that the substance of them is that, in the opinion of the Banks, the existing banking facilities are quite adequate for all reasonable requirements of rural credit in Ireland. We much regret that all but two of the Banks were unable to see their way to assist the work of our Inquiry by nominating a witness to give verbal evidence before us, especially as we had made it quite clear that no effort would be made to obtain any information which a Bank could not reasonably be expected to furnish. We were glad, however, to have the assistance given to us by the O'Connor Don (Director of the Bank of Ireland) as a witness; and also the valuable evidence kindly supplied by our colleague, Dr. Kyle Knox, late Chairman of the Northern Banking Company, who has had such a long and responsible experience in every phase of Joint Stock Banking.

See evidence,
575-670.

See evidence,
887-938.

Summary of distinctive features of rural credit.

55. In dealing with the important question as to how far the Irish Joint Stock Banks meet the credit needs of the farmers of the country, it is necessary to bear in mind the essential characteristics of any satisfactory system of rural credit—features which are now practically universally admitted by all authorities on the subject. It will be convenient here briefly to summarise them :—

(a) A farmer usually requires a loan for a fairly long period before the advance can be repaid from the returns obtained by the outlay. Nature herself has fixed these limits; whereas the manufacturer or business man can, to a certain extent, alter his periods of production, or turn over his stock more quickly so as to fit in with his credit requirements. In addition, the loans required by small and medium farmers are, as a rule, smaller in size than the average commercial or business loan. See paras. 19, 20.

(b) The returns in agriculture are mainly seasonal, and do not, like most commercial and business receipts, continue to flow in regularly at all periods of the year. See para. 21.

(c) Agriculture is a calling liable to peculiar risks, both as regards crops and live stock, from such causes as disease, weather, &c., over which the farmer has no control. Hence its products furnish a more uncertain security for loans than the security which can be offered in the commercial and business world. See para. 22.

(d) The difficulties of keeping exact business accounts in farming are considerable. This is a distinct disadvantage in dealing with commercial banking institutions. See para. 23.

(e) The security afforded by the land itself is often uncertain, and is not easily negotiable, owing to frequent defects of title, fluctuations in market value, and difficulty of realisation in case of default. See para. 24.

(f) In agriculture there is a frequent absence of that proximity between the lender and the farmer which would enable the lender to obtain the necessary knowledge of the standing, business capacity, and character of the farmer—knowledge which is, as a rule, much more easily obtained in regard to merchants, shopkeepers, &c., residing in close proximity to the Banks. See para. 25.

The Credit requirements of the small Irish Farmer.

56. We propose now to consider, in the light of the evidence received by us, how far these admitted difficulties in adapting ordinary commercial credit to the peculiar circumstances of agriculture have been overcome by the Joint Stock Banks in Ireland. Numerous witnesses have made it clear to us that the chief objects for which the small farmer in Ireland usually finds it necessary to obtain credit are the purchase of seeds, manures, feeding stuffs, live stock, agricultural implements, and the holding-over of stock. In order that he may be in a position to repay from the sale of his crops the advances obtained for the purchase of seed, a loan for a term of less than six months is of comparatively little

*Appendix 1 to Minutes of Evidence.

use to him. A period of six months may, in fact, be taken as the minimum term for which the majority of loans in connection with rural credit are required. Should the advance be needed for the purchase of live stock or of farm implements, a year, and frequently a term of several years, would be the shortest period admitting of repayment of the principal of the loan with interest, and with a profit to the borrower, from the returns gained by such outlay.

If the expenditure be, however, for permanent improvements to the land, such as drainage, then the term of the loan must naturally be still longer. In such a case, repayment of the advance by instalments, spread over a series of years on the sinking fund principle, is admittedly the most advantageous method to adopt. The question of these "long term" loans (*i.e.*, loans for a series of years) differs in several important respects (such as the nature of the security required, the object of the loan, and the method of repayment) from the ordinary loans for six or twelve months required by farmers for current expenditure. It has accordingly been necessary to deal with long term credit in a separate section of our Report.

See pp. 334-74.

While the period of six, twelve, or eighteen months is long in comparison with the usual three or four months' period for business loans, we have found it convenient to confine our use of the special designation "long term" loans to advances extending over at least two or more years.

Joint Stock Banks must, as a general rule, deal in short term Loans.

See para. 20.

57. We have already referred to the fact that the existing Joint Stock Banking systems of all countries have been evolved mainly to meet the requirements of the commercial and business classes, and not of agriculture. Agriculture must of necessity take a secondary place in the calculations of those responsible for the control of these banking institutions. This statement cannot, we think, be controverted. The Irish Joint Stock Banks, much as they have undoubtedly done to adapt themselves to the special requirements of the farming class, are no exception to the general rule. They, like all other Joint Stock Banks, must, naturally and rightly, aim at making fair profits for their shareholders. This entails a comparatively rapid turnover of their funds.—a principle which must strongly militate against the possibility of these institutions making a general practice of issuing loans for any but comparatively short periods. Another important factor, tending likewise in the same direction, is that the Joint Stock Banks hold most of their deposits at call or at very short notice. The very nature of their business, therefore, prevents them tying up their funds for periods of any considerable length.

Also, to retain effective supervision over borrowers, and to guard against the incurring of bad debts, it is essential that loans should not as a rule be made by these Banks for prolonged periods.

Usual loan from a Bank is for a period of three or four months, with renewals in approved cases.

58. For the above reasons, these Banks insist upon their loans being usually made for a period of only three or four months. We have been informed that in some cases the period for which loans are discounted by them exceeds four months, and in exceptional cases is extended to eight or even twelve months as a maximum (see the statements furnished us by the Banks, printed in Appendices).^{*} But undoubtedly the usual period is three or four months, with renewals in approved cases. It is clear from the evidence we have received that the Irish Banks, in spite of keen competition amongst themselves, and of their desire to adapt their organisation and methods as far as possible to the needs of the small farmers in this country—a large clientèle—find that these short terms for loans must, as a rule, be adhered to. We have had ample proof that such loans, at a reasonable rate of interest, are readily obtained by Irish farmers, provided always that sureties satisfactory to the Bank are forthcoming.

59. It is, however, the renewals of loans, with the frequent expenses and loss of time to both borrower and sureties, which, coupled with the initial similar expense incurred in procuring the loan, render the system so expensive to the small borrower and so troublesome to the Banks. These disadvantages are particularly apparent in the case of loans of a comparatively small amount, say of £10 and under, the rate of discount being relatively higher in such cases, while the administrative expenses to the Bank in recording and dealing with these trifling loans are as great as in the case of much larger commercial and business transactions. We have had evidence which would tend to show that most of the loans of £10 and under made by the Irish Joint Stock Banks are advanced to farmers, and not to business men or tradesmen.

^{*}Appendix 1 to Minutes of Evidence.

Advances by overdraft on current account.

60. From the statements furnished to us by the Banks, it appears that where the circumstances of the borrower and the nature of the loan admit of it, the practice has increased in recent years of making advances to farmers by way of overdraft, secured by guarantee or otherwise. It is evident, however, that this method (somewhat similar to the Scotch cash credit) is not usual in the case of smaller farmers, and it was seldom referred to by any of the witnesses who appeared before us.

Dr. Knox, 887A.

Most Rev. Dr. Kelly, 3029.

The Irish Joint Stock Banks and the large farmer.

61. We do not think that the more substantial farmers find, as a rule, much difficulty in obtaining from Joint Stock Banks the advances which they, in common with small farmers, often stand in need of. But there is no doubt that even these larger men are at some disadvantage as compared with traders and commercial houses in dealing with the Banks, owing to the nature of the main security they have to offer, and other drawbacks inherent to the agricultural industry. We believe that, on the whole, they are in a position to make fairly satisfactory arrangements for the supply of their credit needs; although we do not wish it to be inferred that, in our opinion, no improvements in the system for the supply of capital for their use could, with benefit, be made. A comparison, for instance, of the difficulties attached to the offering of land in Ireland as a security for loans, with the excellently organised system of Land Mortgage Credit Associations and Joint Stock Mortgage Banks in Germany, will show how far behind that country Ireland at present is in this important sphere of agricultural credit. This aspect of the question will be dealt with in the section of our Report treating of Mortgage Credit and Long Term Loans.

Paras. 837-58.

Small Loans expensive to borrowers and unprofitable to Banks.

62. Your Committee's Inquiry was chiefly concerned with the condition of the small and medium farmers, and in regard to this important class the weight of the evidence from all parts of the country conclusively shows that the present methods of obtaining small loans from Joint Stock Banks are, as a rule, unduly expensive to the borrower—even though the actual rate of interest charged may be moderate—and that these small transactions are at the same time troublesome and unprofitable to the Banks themselves.

In his interesting evidence on this point our colleague, Dr. Kyle Knox, put the matter clearly. He said:—

“Bills and Promissory Notes are discounted for ridiculously small amounts. The minimum discount is a shilling or less. They are, of course, unprofitable; they go through the same process of entries in the books, the examination by inspectors, presentation, &c., as if they were £500. The Banks would be glad to have this small and troublesome business taken over by Credit Societies, and they are ready to lend money at 4 per cent. to these same Credit Societies to enable them to do so. It is not good for a Bank, and it does not pay a Bank, to go after a man with a £2 Bill if he does not turn up to pay it.”

887A *et seq.*

“Q. What minimum would pay you? You say that £2 is not profitable?—A. Nothing under £5, and £5 is scarcely profitable. These small Bills are not worth talking about. I do not think a man borrowing £3 would come to us at all if there was a Credit Society in the place. Bills current at three branches of the Northern Bank in the West of Ireland show that there are 336 in one branch; 268 in another; and 194 in a third, under £5. There are 457 Bills of from £5 to £10 at the three Branches. All these Bills must be Agricultural Bills, because the tradesmen, as a rule, do not take money under sums of £5 and £10. It would be quite unusual. There are 23 Bills of £1, at 3 branches; 169 of £2; 215 of £3; 193 of £4; and 198 of £5.”

“Q. Is it your opinion that the Joint Stock Banks would be really better off without that business?—A. I think we would lose business over them, but they are disagreeable and unpleasant.”

63. In dealing with the question of small loans advanced to farmers by the Joint Stock Banks, the O'Connor Don (Director of the Bank of Ireland) said:—

“Of course it is a bit troublesome, and you must remember that in these very small loans you have to send notices that entail labour, and consequently expense. You cannot expect as a commercial transaction to get them at Bank of England rates. You may say that almost all the Bills of £10 and under will be agricultural; but there will be a huge amount for agricultural purposes in addition to that.”

591 *et seq.**Advances of £10 and under made by Bank of Ireland.*

64. We are indebted to the O'Connor Don for the useful Return (printed as an Appendix)* showing the number of advances of £10 and under, made by certain selected Branches of the Bank of Ireland. From this Return it appears that, exclusive of the advances made by that Bank in the cities of Dublin, Belfast, and Cork, over 25 per cent. of the loans

* Appendix 2 to Minutes of Evidence.

made by its other Branches were advanced to farmers. Ten per cent, of this amount was lent in sums of £10 or under. We have had evidence leading us to think that the Bank of Ireland has in recent years done as much as, if not more than, any of the other Irish Joint Stock Banks to cater for the needs of the small rural classes; yet it will be seen that, even after the advances made by this Bank in the three cities named have been excluded (advances which presumably were mainly concerned with trade and commerce), only one-fourth of the loans made by the other Branches were advanced to farmers. Of these agricultural loans, again, only one-tenth were in sums of £10 and under. Even in the twelve selected Branches referred to, the proportion of advances of £10 and under averaged only 16 per cent., and only in one case did it exceed 30 per cent., of the total advances to farmers made by these Branches. We may fairly assume that if similar figures were obtained from the other Joint Stock Banks, the proportion of agricultural loans to the total advances made by these Banks would not, on the whole, be any greater; nor would the proportionate number of small loans of £10 and under be likely, we think, to exceed the figures furnished us by the Bank of Ireland.

65. We should add that, unlike Dr. Kyle Knox, the O'Connor Don was not of opinion that it would pay the Banks to cease advancing these small loans. He said:—

“I do not think, as a whole, it would pay the Bank to get rid of this small business bodily, and hand it over to the small Societies; nor do I think that the small Societies would treat their customers better than we do.”

We can hardly think that, in making this statement, the witness took fully into account the many advantages which a local Credit Society offers to small rural borrowers, including the longer term allowed for repayment, the absence of renewals, and the great convenience of having credit facilities at their own doors, thus doing away with the necessity for the making of a journey to the nearest Joint Stock Bank, with the accompanying expense and loss of time incurred by both borrower and sureties (save where these would, in any event, have been attending a market or fair in the town). We shall later on refer in fuller detail to the various advantages of local Credit Societies in the field of small rural credit.

THE RATE OF INTEREST CHARGED BY THE BANKS.

66. It seems probable that the O'Connor Don, in expressing the opinion that Credit Societies would not treat their customers better than the Joint Stock Banks, meant to refer mainly to the rate of interest charged. In regard to this point, the evidence we have heard proves, we think, that in the great majority of cases the Banks could hardly be expected, as a business proposition, to make lower charges on their advances in the case of small loans than they now do, although exceptional instances of rather high rates on such loans were brought under our notice during the Inquiry. Some witnesses have informed us that a Branch Bank has made a minimum charge of 2s. 6d. for a loan for a period of 4 months. In the case of a loan of £5, this reckoned as *interest* would mean a rate of $7\frac{1}{2}$ per cent. per annum, but when deducted by the Bank in advance as *discount*, the rate paid by the borrower is, of course, somewhat higher. On a £3 loan this charge would be equivalent to $12\frac{1}{2}$ per cent. per annum, even if not deducted in advance. Evidence was also given to us of a direct rate of 10 per cent. being charged by Joint Stock Banks on small loans, but we are of opinion that such cases are now rather exceptional.

EXTRACTS FROM STATEMENTS FURNISHED TO THE COMMITTEE BY THE BANKS.

67. The Memoranda furnished by the Joint Stock Banks in reply to the Committee's letter have been reproduced in the Appendices,* and need not, therefore, be given here in full. The following extracts, however, including the more important portions of these statements, may with advantage be quoted here.

BANK OF IRELAND.

68. The *Bank of Ireland* state in their Memorandum:—

“The Bank makes advances to farmers—both large and small holders—graziers, cattle dealers, and other parties engaged in carrying on the agricultural industry of the country. It is the practice of the Bank—and one not restricted to any particular district—to grant to small holders reasonable and adequate accommodation for the purpose of assisting them to stock their lands, put in their crops, and work their holdings generally.

“As a general rule, advances under say £100—for agricultural purposes—are made on the personal security of the borrower and one or more sureties, larger amounts are also frequently granted on personal

*See Appendix 1 to Minutes of Evidence.

security only, but in many cases such advances are collaterally secured by a charge on the borrowers' interest in his land. Loans vary from £3 and sometimes under, up to £400 to £500, and are granted for periods of three or four months, with an understanding for renewals with reductions during the Bank's pleasure, and the rates generally charged on these transactions vary from 5 per cent. to 6 per cent. per annum.

"The general results as regards repayment of loans are as a rule satisfactory; in some cases the parties are slow in reducing, and in other cases when the accommodation is reduced or paid, it is frequently required and availed of again after a short interval. Loans to the farming community are granted *inter alia* for the following purposes, viz. :—to assist in the purchase of farms; to stock or work the farms; to erect buildings, pay off charges, and facilitate family arrangements; to provide agricultural machinery and implements, and for improving the lands generally. The Bank has met the requirements of the new holders under the Land Purchase Acts as freely and fully as possible, having in view the limitation imposed by the Land Purchase Act of 1903.

"The system of Auctioneering business, which varies in different localities, largely comprises the discounting of Bills drawn against sales of stock and agricultural produce, grazing and other lettings, and sales of tenants' interests in their land. As a general rule the experience of the Bank has been that when conducted within legitimate lines, it has proved satisfactory."

ULSTER BANK.

69. The *Ulster Bank* state that the advances to farmers made by that institution

"Amount to several hundred thousand pounds, the largest proportion being for the purchase and stocking of farms; the next largest for advances on Bills of £10 and under; and the next largest on Auction Bills.

"The security given is usually a mortgage on a farm, or one or more good names on a bill; the currency of such bills is usually three or four but sometimes six months, and not unfrequently followed by renewals, and the customary charge is the current rate from time to time on overdrafts to trade customers.

"Speaking generally we may say that we have had no difficulty in meeting applications for all these purposes when satisfactory security has been offered and the prospect of repayment is not too remote."

NORTHERN BANK.

70. The *Northern Banking Company* in their memorandum write :—

"The nature of the security required varies with the circumstances of the borrower, and may consist of tangible security in the shape of deeds, &c., or negotiable securities, personal security in shape of guarantees, or bills with one or more names. The majority of the loans would be under £100—loans from £3 to £30 perhaps predominating. But for special purposes and on large holdings carrying valuable stock, the advances run to much higher figures. In fact where the object is legitimate, accommodation is freely granted, due regard being paid to the relative resources of the borrower. Rates are usually 5 to 6 per cent. unless in abnormal conditions of the money market, when higher rates prevail.

"The length of the term varies from one month upwards, but is very generally—in the interval between spring and harvest, or the buying and marketing of stock—6 to 8 months, or even a more extended term.

"In recent years it has become more the practice, where the circumstances of the borrower and the nature of the loan admit of it, to make advances by way of overdraft secured by guarantee or otherwise, and the guarantee being a continuing security no renewal is necessary unless the guarantee is withdrawn, when a new arrangement has to be made. Such overdrafts are charged the same rate of interest as ordinary business accounts. In some cases bills from six to twelve months are lodged as collateral, and the promote of the principal for 3 to 4 months, renewable on his sole signature, is discounted to keep the bills within the prescribed currency. But it is not usual to discount bills at a longer date than four months, and in such cases renewal at the end of the term may be necessary."

BELFAST BANK.

71. The *Belfast Banking Co.* point out that as their business is practically all carried on in Ulster, and in a few commercial centres outside it,

"The manufacturing and industrial portion of the Bank's business necessarily requires the very much larger use of capital than agricultural enterprises call for.

"We, however, approximate that this bank has, out of a total lendings of four and a-half million pounds sterling, a sum of upwards of half a million pounds sterling lent in agricultural credit, as the practice of this Bank has always been to assist, as far as possible, consistent with safety, small farmers. No reasonable application for financial assistance on the part of comparatively small holders coming within our sphere of activity is, when sufficiently secured, refused.

"The individual Agricultural Bills at our purely country branches average about £9 each—the Bills are very numerous, and very many of them are drawn for sums as low as £3 each.

"Agricultural advances are almost invariably made on bills bearing the names of sureties, generally those of country shop-keepers or neighbouring farmers usually somewhat more prosperous than the borrower, but who take an interest in him and his well-being. The bills are as a rule drawn for four months and sometimes for six months, according to the incidence of the desired due date, but are often renewed either in whole or in part.

"We do not limit the currency of Farmers' Bills to four months, as although that is the usual period, we also discount them for periods extending to twelve months as a maximum, in the endeavour to make the period suit the convenience of the party who, by the sale of produce or otherwise, has to make provision for the due payment of the obligation. In cases where accommodation on a current banking account is more convenient to farmers, the advances are made in that form, the time of repayment settled by mutual arrangement, the rate of interest charged being at the overdrawn account rate, calculated on the actual balance as due from day to day, no difference being made between commercial and agricultural accounts.

"The usual rate charged on these bills is the published overdrawn account rate of the day, being the same sum as is charged on the overdrawn accounts of all Mercantile and Trading concerns, large or small. This rate would average from 5 to 6 per cent. per annum in accordance with the rate of the Money Market.

"No special enquiry is made as to the nature or object of the loans, but our Managers, in the necessary discharge of their duties when in conversation with their clients, keep themselves conversant with the surrounding circumstances which invariably point to the money being required for some legitimate farming purpose.

"Auction Bills generally of 10 or 12 months currency are to a considerable extent discounted, but we make the personality and financial position of the Auctioneer a most important factor in these transactions, because our managers have not in these cases the knowledge of the other parties to the Bill, same as they have under the conditions mentioned above. In principle we do not think this is a class of business that should be encouraged.

"We believe that any help to agricultural interests intended to be prudently given on business lines is fully met by the present system of this and every other Irish Bank. So far as we have been able to ascertain, all the Irish Banks take the same favourable and sympathetic view, as to the necessity of affording reasonable and safe accommodation to the agricultural interests which are of so much importance to the country's wealth and prosperity."

MUNSTER AND LEINSTER BANK.

72. In their communication to your Committee the *Munster and Leinster Bank* say:—

"Loans to farmers are made both in the form of promissory notes and overdrafts on current accounts. It is in connection with loans comparatively large in individual amount that the guaranteed overdraft or cash credit system is employed. The sums lent range from five pounds upwards. At some few of the Bank's branches loans of lesser amount than £5 are occasionally made, but the practice is not general.

"In the majority of loans the security takes the shape of the joint and several personal obligations of the borrower and his surety or sureties. In numerous cases, too, the security consists of a charge on the lands, and it frequently happens that both forms of security are given in connection with the same transaction. In the fixing of interest regard is had to the current price of money, to the character of the security, and the amount and duration of the loan.

"It is this Bank's experience that the great bulk of advances made to agricultural borrowers are repaid with fidelity and punctuality.

"The facilities at the command of agricultural holders for obtaining from the Banks advances on advantageous terms appear to my Board to be very ample."

PROVINCIAL BANK.

73. The *Provincial Bank of Ireland* confine the information furnished by them to your Committee to the statement that

"So far as the Bank is concerned, the Directors are of opinion that the legitimate needs of agricultural credit to farmers in Ireland are fully satisfied by the present system of the Irish Joint Stock Banks, whose branches and sub-branches spread all over the country, supply deserving farmers with every suitable accommodation that can prudently be given on *business* lines, such advances running in the case of this Bank from three or five to hundreds of pounds in the several cases, and in the total reaching hundreds of thousands of pounds."

NATIONAL BANK.

74. The *National Bank* intimate that their Board

"Do not see their way to offer any practical suggestions for the extension of, or for any improvement in, the existing system under which banking credit is now afforded to farmers in Ireland.

"My Board venture to point out that the National Bank was founded by O'Connell mainly for the purpose of assisting Irish farmers, and throughout its career it has steadily associated itself with agricultural interests, more especially in the direction of promoting and fostering the prosperity of the farming industry, and, by means of its numerous branches, it has hitherto freely given, and will continue readily to give, all necessary financial assistance towards enabling farmers to purchase stock and seed—to add to and improve their outbuildings, &c.—and to provide themselves with farm implements, machinery, and the like.

"My Board are clearly of opinion that, short of direct financial assistance from the Exchequer, no better or cheaper method of helping the small farmer can be devised than that which at present obtains."

HIBERNIAN BANK.

75. The reply of the *Hibernian Bank*, is confined to an expression of the opinion that

"This Bank has always afforded suitable accommodation to landholders in the districts served by the branches of the Bank, and has met, and is at all times prepared to meet, the reasonable needs of small holders requiring loans of comparatively small amount. My Directors regret they do not see their way to enter further into the details set forth in your Memorandum; and in these circumstances they do not propose to forward you any written statement or nominate a representative to give oral evidence before your Committee on the subjects indicated."

Credit needs of Small Farmers and Agricultural Labourers not met by Banks.

76. Taking into account the difficulties attached to rural as compared with commercial credit, the Irish Joint Stock Banks have, on the whole, as banking institutions, gone we believe, almost as far as can reasonably be expected in their efforts to meet the requirements of the small farmers of the country; and have, indeed, in some cases, undertaken what is to them unprofitable business in the advancing of small loans to the rural classes. In spite of this fact the weight of the evidence received by your Committee at their sittings in all parts of Ireland distinctly proves that—as might have been anticipated from the experience of similar banking institutions in other countries—the Irish Joint Stock Banks have not entirely succeeded in overcoming the peculiar difficulties attached to the furnishing of credit to small cultivators of the soil.* The supply of credit to agricultural labourers, moreover, has been practically untouched by them, for obvious reasons; since the obstacles which tend to prevent the ordinary Banks dealing with small farmers exist in a much greater degree in the case of agricultural labourers, who have less tangible security to offer and more difficulty in finding suitable sureties.

Paras. 503-503D.

THE OBTAINING OF SUITABLE SURETIES BY SMALL FARMERS.

77. The difficulty which a small agriculturist often experiences in finding one or two sureties satisfactory to the Joint Stock Bank is one which was mentioned by numerous witnesses. It is clear that, as a general rule, the Banks require that the sureties should be men of some substance who are known to the Bank or are depositors there. This latter qualification is a very convenient one from the Bank's point of view, as in case of default in repayment by the borrower, the Bank can draw upon the deposit of the surety. Safeguards of this sort are natural, and indeed inevitable, when the lending institution is not in close touch with the circumstances of the borrower; but it is evident that a small farmer must find much more difficulty in supplying suitable sureties than a tradesman or merchant residing in the town, who, with his sureties, is as a rule personally known to the Bank Manager. We do not lose sight of the fact that after a time the manager of a Branch Bank in a country district gradually gains a considerable acquaintance with the circumstances, character, and business capacity of the farmers in the immediate neighbourhood, which is of much assistance to him in dealing with applications for advances. But nevertheless the rural borrower living at any distance from the Bank is undoubtedly at a considerable disadvantage as compared with dwellers in the towns.

Some extracts from the evidence in regard to question of sureties.

78. At our sittings in all parts of the country witnesses laid special stress upon the various difficulties connected with the obtaining of suitable sureties by small farmers. We quote here a few typical extracts from this evidence.

A farmer who was nominated by the County Clare Committee of Agriculture as a witness said:—

J. M'Clancy,
8902-08.

"I think it would be a great boon to small farmers if they could get money on easier terms than at present.

Q What are the terms at present? A. They vary from 8 to 10 per cent. per cent. for small farmers, and the borrowers have to get securities, and that is very expensive. They have to get two or three or four people to secure them for a loan in the Joint Stock Banks. They have to bring these into town and treat them, and give them free days, and in fact have to be always under their thumb, so to speak, while the loan lasts.

* To this day, indeed, all classes of agriculturist, from the highest to the lowest, labour under a serious disadvantage because there are no better provisions made for supplying them with the banking accommodation they require."—*Statist*, 15th February, 1908.

In referring to the case of Ireland, the *Statist* (April 16th, 1910) wrote:—"Ireland being an almost exclusively agricultural country, if the ordinary banks did not cater for the farmers, they might as well close their doors. But the ordinary Banks are not constituted in a manner to supply what is specially requisite for a peasant proprietary."

Q. And you say the borrower sometimes requires three or four securities? A. Yes.

Q. That is a very costly proceeding? A. Yes.

Q. And there is a good deal of loss of time also? A. There is.

Q. Now, as regards the financial standing of the securities, what does the Bank require? A. As a rule the Banks know the standing of the people around the district, and they require people of a certain standing that are safe before they lend on their security.

Q. For what length of time is a loan usually given? A. They give it for a long time if it is renewed. They are not very pressing. The loan is given for three months, and is then renewed, and the expense grows every time it is renewed."

Another farmer, when asked how the small farmers in his district obtained capital, replied :—

"With great difficulty. The better class farmer has very little difficulty in getting money in the local Bank, but the poorer farmer must get the better class man to go security, and his pride prevents him doing that, and too many may be asking the big man to go as security. Often the smaller man would have to get three or four securities in order to get a loan at the Joint Stock Bank. It is not unusual to have four securities for a sum of £6.

Q. All that involves inconvenience and expense, both for the Bank and the borrower? A. Yes. They have to go every three months to renew the bill, and travel a distance of eight or ten miles with the securities.

A. That is very costly? A. Yes.

Q. And there is a great loss of time to the borrower and his securities? A. Yes, and expense to the poor borrower as well, because I need hardly tell you that he must provide the securities with luncheon. The journey will be eighteen or nineteen miles before they get home from the Bank."

Further evidence as to difficulties connected with obtaining of sureties.

10927-8. 79. At our sittings in Westport, Rev. Jeremiah O'Toole, P.P., of Kilmena, who has taken much interest in the question of rural credit for small farmers, stated :—

"Of course, the Joint Stock Banks are pretty free in giving money to the people, but here is what occurs :—A man will want a loan of three pounds or four pounds. The interest is deducted immediately. He will have to pay the expenses of his securities every three months, when he goes to the Bank to have the bill renewed; he loses time over that, and in addition he will go himself and give a day's work to each of the securities, or if not, his son will.

Q. Has he to bring in the two securities to renew the bill? A. Yes. If he gets £5 for three months, at the end of three months he and the securities are served with notice that the Bill is overdue, and the three have to appear in the Bank. If he is not able to meet the Bill after three months it is renewed, and the same thing takes place, so that at the end of twelve months very little of the £5 is left."

W. H. West, 11894-7. 80. The Secretary of the County Committee of Agriculture and Technical Instruction for County Fermanagh, in giving evidence at Clones, said :—

"I have spoken to the manager of a Bank about people applying for loans, and told him that they were worth three times the amount they required, and he said, 'We do not know these people at all.'

Q. You know cases where men were good marks for the money, yet the manager of the Joint Stock Bank would not give the loan? A. Yes.

Q. That shows that the Joint Stock Banks do not meet these cases? A. Yes. I am sure half the population is beneath the level of the Joint Stock Bank.

Q. Then the business of the country must be greatly handicapped? A. I believe it is."

T. M. Larney, 12813-4, 12829-32. 81. At the same sittings a farmer who was nominated as a witness by the County Cavan Committee of Agriculture stated :—

"I think the great drawback with regard to the loans from the Joint Stock Banks to small farmers is that the Banks do not know them, and they must have a depositor in the Bank, or some person of solvent means to secure them, before they get an advance. That means that a borrower will have to bring, perhaps, two securities with him, and that entails a lot of expense.

Q. He has to compensate these men every time they go with him to the Bank? A. That is every four months, and that added to the rate of interest usually charged by the Joint Stock Banks makes the loans very costly to the borrower, I put it down at 15 per cent. Sixpence per £ is what the Banks charge; that is about 7½ per cent., and I put down the compensation to the securities as about the same amount, so that the loan actually costs the borrower 15 per cent. There is another drawback in connection with it, and that is this. This class of people that the borrower has to fall back on as security are few and far between, and hard to get, and the result is that the small farmer has to fall back on some other source of obtaining money. . . . I am not finding fault with the Joint Stock Banks for their dealings with the farmers. They have no opportunity of knowing the people. In our district we are ten or twelve miles from Cavan, which is our town for business of that sort, and the managers of the Banks do not know the people, and they want somebody who is known to them—either a depositor in the Bank, or a man of solvent means. . . .

Q. Often when the Banks advance the money the attendant expenses bring the interest up to 15 per cent.? A. Yes.

Q. And that rate is too high to afford a margin of profit? A. Yes, and in that respect the Agricultural Credit Society, where it is established, is a boon to the small farmer who wants to borrow for useful purposes inasmuch as he has not to go into the town, and he is known to the Committee, and they know all about his *bona fides*. The thing is done locally. He has to incur no expenditure beyond the interest charged on the loan."

82. We could easily multiply illustrations of this nature from the evidence of witnesses who were in a position to speak from practical experience of the relations of the Joint Stock Banks to small farmers. We shall, however, conclude our quotations regarding this particular aspect of the subject with the following extract from the evidence given by Rev. J. R. Maguire, c.c., of Garrison, Co. Fermanagh, at our Strabane sittings, who spoke from personal knowledge of the economic condition of the western side of that county, where the valuation of the holdings averages £7, and the land is mostly poor in quality:—

“Q. You state in your synopsis of evidence that the Joint Stock Banks do not fully meet the needs of the locality? A. They do not, especially in our locality, where we are seven miles from the nearest Joint Stock Bank. The Joint Stock Banks require very safe security, as far as I can see. Supposing a man wanted a larger sum than our Society could give, and I recommended him to the Joint Stock Bank, they would give it. The rate of interest for small loans is very high—from 7 to 10 per cent. I think. By the time a farmer goes seven miles and brings two securities with him, and gets the loan for three months and renews it, it is practically useless to him.”

14477.

Difference between the sureties required by a Bank and by a Credit Society.

83. Several witnesses, on the other hand, informed us that any farmer worthy of a loan could easily obtain one from the Joint Stock Banks, but these witnesses usually added a proviso to the effect that all borrowers must be able to furnish the Bank with satisfactory sureties. This is naturally a *sine qua non* for the obtaining of a loan, not merely from a Joint Stock Bank, but from any properly organised lending institution, including Co-operative Credit Societies, which, as will be seen later in our Report, insist upon their borrowers furnishing securities. But the security required by a Joint Stock Bank must of necessity be of a different nature from that which would satisfy a Credit Society. The Committee of the latter are, from the constitution of the Society, well acquainted with the circumstances and character of all the members—and members alone can obtain advances from the Society's funds. A deserving borrower, therefore, has little difficulty in obtaining neighbours of his own class who will agree to act as his sureties, nor has he to go far from his home to find them. It is quite different with the Joint Stock Banks, for these institutions, in the absence of close touch with the small farmers living at some distance, must rightly, and as a pure matter of business, insist in most cases that the sureties are men of some substance, or depositors in the Bank, or otherwise known to the manager.

Most Rev. Dr. Kelly, 3011.
J. Smith, 11925-33.
F. Kelly, 16216, etc.

Expense, loss of time, and other drawbacks often connected with the obtaining of Loans by small Farmers from the Joint Stock Banks.

84. On few points associated with the subject of our Inquiry was more frequent stress laid by witnesses in all parts of the country than on the trouble and expense connected with the obtaining of sureties, even for loans of comparatively trifling amount. In addition to the difficulty often experienced by the borrowers in persuading reluctant sureties of a class satisfactory to the Joint Stock Bank to accompany them to the Bank, considerable time is often lost in travelling to and from the nearest town; this loss falls not only upon the borrower, but upon his sureties, who, human nature being what it is, take care, as a rule, to exact some service in return at a later date. It is very frequently the custom for the small borrower to repay his obligation to a surety by giving his free services for a day or longer on the farm of the latter, or by furnishing the grazing of an animal, or the loan of a horse, or by conferring some similar benefit. This state of affairs, in which the borrower in order to obtain the aid of even a small loan must thus put himself under obligation to a neighbour, seems to us highly unsatisfactory. As one witness phrased it, the borrower too often is virtually the “slave” of the surety until the bill has been cleared off.

R. Downes, 17387.
M. M'Namara, 8113-4.
Rev. T. Phelan, 17436.
R. G. Greene, 3118, etc.

We have already quoted some extracts from the evidence, showing how the cost of entertaining the sureties, and in many cases the expenses of rail and car fare for both borrower and sureties, add to the interest on the loan. We are convinced that the witnesses who informed us that these additional expenses often brought the cost of a small loan up to 15 or 20 per cent. (not including the expense of renewals) did not exaggerate the unsatisfactory position of affairs. It will be observed that few, if any, of these additional expenses are incurred by a tradesman in a town, who may desire a loan of a similar amount. Frequently, however, the Banks endeavour to avoid the bringing in of the sureties at each renewal of a bill.

Advantages of Credit Societies over Banks in respect of the hours for transacting business.

85. Another important respect in which the facilities afforded by the Joint Stock Banks to rural borrowers compare unfavourably with these supplied by local Co-operative Credit Societies is found in the hours during which the business of these institutions is

conducted. The doors of the Bank are, as a rule, closed to customers at the hour of 3 p.m. This arrangement sometimes necessitates not only the borrower but his sureties losing the greater part of the best hours of the day, and temporarily deserting field operations, at considerable inconvenience. In striking contrast to this is the plan adopted almost universally by local Co-operative Credit Societies; the Committee meets in the evening for the transaction of business, at the close of the day's work, so that neither the members of the Committee, the borrower, nor his sureties, need be at any loss whatever in respect of time. The Secretary of the Ballyragget Credit Society informed us of the method adopted by that Society to obviate the trouble caused to borrowers by bringing of sureties from some distance to the office:—

J. Brett, 834-5.

“ Here is another great advantage in our Societies. I witness all the signatures I can of the borrowers and securities, but, where there is a borrower coming in from the country, three or four miles away, he mentions the names of his securities, he would be able to go to the Committee man living nearest to him and get securities to sign before him, and they need not come in at all to the office; or they come in to my private house in the country and sign and go home. . . . Occasionally we give money on one security when we know the party thoroughly well. . . .

“ In some cases again the Joint Stock Banks are miles away. The borrowers come to us, and there are no expenses of securities. In the summer months they come in the evening from 7 to 9 o'clock. In the winter months they come from 6 to 8 o'clock in the evening, so that there is no time lost at all in coming to get a loan. That is a great advantage.”

See paras. 38-42.

We are aware that a great deal of the business of obtaining loans from Banks by the rural classes is transacted on Market and Fair Days, when the borrower would in any case be visiting the town. Many of the branches are, in fact, open only on such days. But even when every allowance has been made for this circumstance, the Joint Stock Banks necessarily contrast unfavourably, not only in respect of the saving of travelling and other expenses, but also in regard to the important matter of economy of time to the borrower—especially during the busy farming seasons of the year—with the facilities afforded by local Co-operative Credit Societies.

A further undesirable factor too often present in the existing system is the temptation for a borrower, who is under a distinct obligation to his sureties, to spend a portion of the loan in various wasteful ways before leaving the town. The returns from ordinary farming operations are not so great as to render it easy at any time for a small farmer to earn a fair profit, in addition to paying interest on borrowed capital; but when apart from the interest charged by the Joint Stock Banks, the expenses referred to are also incurred, it may be assumed that in many cases the total profit obtained by the expenditure of the money borrowed is almost, if not entirely, eaten up.

Limit to number of acceptable Sureties in a district.

86. Another important point which was emphasised by some witnesses is that in many country districts the difficulty of procuring sureties satisfactory to the Joint Stock Banks causes a considerable demand for the services in this capacity of certain individuals acceptable to the Bank. Naturally, no matter how substantial—or good-natured—a person of this type may be, his credit at the Bank must after a time become gradually exhausted. It could not fairly be expected that he or his family would consent to his acting as surety for more than a limited number of borrowers; nor would the Bank accept him as surety after his credit had been drawn upon to a considerable extent. A careful manager of a Branch Bank would be bound, after a time, to intimate that until previous Bills for which this surety had become responsible had been duly met, his signature could not be accepted on further Bills. This inevitable limitation of the credit of suitable sureties constitutes in many cases a considerable handicap on the obtaining by small farmers of credit facilities from the Banks in rural districts.

Joint Stock Banks, unlike Credit Societies, must earn dividends.

87. Furthermore, it should be borne in mind that while a Joint Stock Bank must aim at earning dividends for its shareholders, a Credit Society keeps mainly in view the interests of the borrowers, and endeavours merely to pay expenses, no dividends being paid, or else dividends strictly limited as to maximum amount. This constitutes an all-important difference in the guiding principles on which the two organisations are founded, a difference which makes it quite impossible, in our opinion, for the Joint Stock Banks to afford the same facilities to small borrowers as are readily furnished by Co-operative Credit Societies.

W. G. Dineen,
11557-65.
T. O'Connor,
5100, &c.

Banks do not, as a rule, take into account the object for which an agricultural loan is required.

88. Another aspect in which the credit the Joint Stock Banks can offer to small agriculturists appears disadvantageously in comparison with that supplied by a local Credit Society is that the Banks cannot, as a rule, take into account the purpose for which a loan is advanced by them to a farmer. The loan is generally made if the Bank is satisfied as to the general suitability of the borrower and of his sureties. The evidence received by us on this point is conclusive. The important educative influence exerted upon a borrower from a Credit Society, if the rules be adhered to, is thus generally lacking in transactions with a Bank.

Dangers of facilities for credit without due safeguards for its proper use.

89. The frequent recourse which even industrious and deserving farmers in many parts of Ireland have to money-lenders and "trust-auctions" for the purpose of obtaining advances, shows an unwise, though often excusable, desire to obtain, on any terms, ready cash to tide them over immediate financial difficulties. We shall deal specifically in separate Sections of our Report with various unsound and in many cases dangerous methods of obtaining credit; but we may state here our full agreement, in this sense, with several witnesses (as, for instance, the Most Rev. Dr. Kelly, Lord Bishop of Ross) who informed us that in their opinion too many facilities at present existed for borrowing on the part of the Irish rural classes. We have already intimated that we have had abundant proof during the course of our Inquiry of the great injury too often done to borrowers where credit has been supplied without proper safeguards, both as to the purpose for which the loan is required, and the character and capacity of the borrower. Pp. 51-61, 62-68.
3042.
See para. 3.

Such essential safeguards can, in our opinion—and this view is strongly corroborated by the information we have obtained as to the experience of other countries—only adequately be supplied in the case of the small rural holder by the formation, on a well-organised basis, of local Credit Societies. Such Societies, instead of being competitors with the Joint Stock Banks, should, as is already the practice to some extent in Ireland and other countries, work in friendly co-operation with these larger Banking institutions, each conferring distinct benefits in their own separate spheres.

Friendly relations between Irish Joint Stock Banks and Agricultural Credit Societies.

90. When dealing with Co-operative Credit Societies we shall show how by means of the joint action and united security of small agriculturists the Societies are enabled to deal with the Joint Stock Banks on a commercial basis, and to obtain from the latter the facility of overdrafts at a low rate of interest, which few, if any, of the individual members could hope to receive for themselves. The Banks in Ireland have shown their confidence in the Societies by allowing them to draw upon overdrafts at a very moderate rate of interest, in most cases at 4 per cent. We shall later on deal in detail with this question of overdrafts and their utility in the working of Irish Credit Societies. In Great Britain, also, special arrangements have been recently made under which many of the Banks will permit their local Managers to become unpaid auditors and advisors of the Credit Societies. This friendly co-operation between the two lending systems—covering, as we have shown, different fields of credit—is to be welcomed. We are confident that a continuation and extension of such aid from the Joint Stock Banks would be productive of much benefit in the rural economy of Ireland. Paras. 438-42.
See paras. 440-1.

Mr. Reginald Murray, Manager of the Commercial Bank of India, Calcutta, and a member of the influential Committee which reported in 1903 upon Co-operative Credit Societies in India, writing in the *Banker's Magazine* for February, 1902, emphasised the view that by the increase of these Credit Societies the ordinary Joint Stock Banks are bound to derive benefit, both in the form of deposits and custom. In this opinion of an eminent banker your Committee fully concur.

The views of Mr. O. R. Hobson, Member of Institute of Bankers, England.

91. An interesting prize article upon "*Agricultural Credit Banks*" which was written by Mr. O. R. Hobson, M.A., Associate of the Institute of Bankers (England), appeared in the *Journal* of that Institute for June, 1912. We observe that this Essay has been reprinted in full in the "*Preliminary Report upon Land and Agricultural Credit in Europe*," published last year by the State Department at Washington.* The Essay

* See Senate Document No. 967—1912, and House of Representatives Document No. 891—1912.

presents in a concise and clear form the obstacles, viewed from a banker's standpoint, which prevent the Joint Stock Banks fulfilling the credit requirements of the small farmer. The following is an extract from the article :—

"It may appear surprising, at first sight, that the Joint Stock Banking system which, in the course of the last eighty years, has established itself so impregnably throughout the civilised world, should be deemed incapable of adapting itself to the needs of the small agriculturists. That it has not succeeded in doing so adequately will probably be admitted. This fact is itself *prima facie* evidence that it is not fitted for such a task; for, with the ever-increasing pressure of competition, so obvious a development of banking business would assuredly not have escaped notice had it been capable of successful exploitation. There is no need, however, to strain the point, since the reason for this failing on the part of the Joint Stock Bank is not far to seek.

"In point of fact, the agricultural Credit Bank *does not pay* in the ordinary commercial sense of the word. The banking transactions of the class of men with whom it deals are on so small a scale that in any case it would be a matter of difficulty for a commercial enterprise to undertake them with success. But the crux of the situation lies in the fact that these small agriculturists have for the most part no security of the kind acceptable to a banker to offer as cover for their loans. In the case of the small proprietor a mortgage of his farm may, of course, be available, though such a proceeding is in many cases too expensive and cumbersome; but the tenant farmer has usually no collateral whatever to offer, save possibly the hypothecation of future crops or of cattle or plant. Neither expedient, though useful on occasion, is very desirable, nor likely to find favour in the eyes of a banker. In the majority of cases, in fact, the lender will have little more substantial to rely on than the personal security of the borrower, supplemented, perhaps, by the guarantee of a friend or two not much better off financially than himself."

Mr. Hobson goes on to say :—

"It is evident, therefore, that the professional banker will be unable to any large extent to accommodate this class of customer. His existing branches in the small towns are not so remunerative that he will easily be induced to establish numerous further offices in country villages; while the supervision of loans, covered by the type of security we have described, is a task which would severely tax the powers of the most vigilant and capable of managers.

"Further, the periods for which loans will frequently be required are much longer than that for which the Joint Stock Bank cares to part with its funds. Agricultural credit must in general be long-term credit. The farmer does not, as a rule, turn his money over nearly so rapidly as the manufacturer or tradesman. For few agricultural purposes is a loan for less than six months of much use; and where it is required for the purchase of a fertiliser or the erection of buildings, the necessary period may run into years.

"We may conclude then that the joint stock banking system, through no fault of its own, but owing to the inherent difficulties which the task involves, cannot hope to succeed in adapting itself to the needs of the small agriculturist."*

The evidence we have received confirms to the full the views expressed in the above article.

JOINT STOCK BANKS AND CREDIT SOCIETIES IN GERMANY.

92. An effective illustration of the fact that Joint Stock Banks are unable satisfactorily to meet directly all the small credit needs of agriculture is to be found in the Report of Mr. J. R. Cahill on Agricultural Credit and Co-operation in Germany, already referred to. In this Report the writer states "German farmers have advanced very far towards the solution of the problem of obtaining adequate credit at moderate rates of interest, and on convenient terms of repayment," and points out that this progress has been made by means of no less than 17,000 Co-operative Credit Societies. The membership (in 1910) of 15,000 societies was almost $1\frac{1}{2}$ million persons; the turn-over almost £262,000,000; loans outstanding, with overdrafts, over £93,000,000; savings deposits almost £92,500,000; and deposits on current account nearly £11,000,000. The Report goes on to say :—

"In ordinary commercial banking facilities it is probable that German farmers of the present day are better off than British farmers. As in England, the great German Joint Stock Banks tend to become greater, and their branches or agencies more numerous, but Banks working only in one locality, one district, or one province are far more numerous in Germany. There are over 200 small Joint Stock Banks, besides the urban co-operative Banks, about 1,200 in number, and private bankers are estimated by leading writers on German Banking to number from 4,000 to 6,000. In nearly every country town in Germany may still be found one or more substantial banking firms; and from these, if only by reason of proximity, freedom of action of managers, relatively good knowledge of agricultural matters and persons (as being often established in country district centres), and of competition among themselves, it might have been expected that farmers could have obtained credit on suitable terms.

"Despite this multitude of Raiffeisen Banks, their large membership and business, Professor Riesser, the most eminent authority on German commercial and industrial banking, writing in 1912, observed that much still remained to be done and must be done, in this direction, as 'agriculture requires a credit system adapted to the special nature of the conditions of its production.' And a distinguished Prussian Minister of Finance, in the course of a Parliamentary debate on the Budget of the Prussian State Central Co-operative Bank, for whose foundation he was directly responsible, declared: 'This must be our goal—to have a co-operative loan Bank in practically every parish of the whole monarchy.'"[†]

*See *Agricultural Credit Banks. An examination of the various systems of Agricultural Credit Banks in operation on the Continent, with the object of ascertaining if any such systems are applicable to the conditions existing in England*, Journal of the Institute of Bankers, June, 1912, pp. 329–354.

† See *Report on Agricultural Credit and Co-operation in Germany*, p. XIV.

That portion of Mr. Cahill's verbal evidence dealing with German Banks should also be read in this connection. Germany appears to present a striking illustration of the fact that below the class of rural borrower which can easily be reached by the Joint Stock Banks and similar institutions there is an ample field for the organised development of small rural credit lying beyond the reach of these commercial banking concerns. 18707 et seq.

THE BANK OF FRANCE AND SMALL RURAL CREDIT.

93. Perhaps the best-known instance of the apparent success of a Joint Stock Banking institution in meeting the needs of the small rural borrower is that of the famous Bank of France, to the constitution and methods of which reference is so frequently made by economic writers. The *Statist*, for instance, has repeatedly dwelt upon the services of this Bank to the small French cultivator, and has recommended that its example should be followed by Joint Stock Banks in the United Kingdom.* From the published official returns† it would appear that in the year 1911 the total number of bills discounted by the Bank of France reached 25,242,438, to a value of no less than £666,000,000—an increase of £83,000,000 on the preceding year. The number of bills, discounted in Paris, of 5 francs and up to 10 francs (*i.e.*, from 4s. to 8s.), in amount was 237,512; between 8s. and £2 the number was 2,231,942; from £2 to £4—1,536,126; and over £4—4,218,384. It will be seen that 30 per cent. of the bills discounted in Paris were under £2 in amount while almost 50 per cent. were of the value of £4 and under.

Memorandum furnished by M. Picard, Secretary of the Bank of France.

94. This is undoubtedly a remarkable case of a large Banking institution dealing with loans of a very trifling amount, many of them for agricultural purposes. But it will be found, on examination of the methods by which such results have been achieved, that even the Bank of France forms no exception to the rule that ordinary commercial credit cannot be made available on the usual lines for small agriculturists. Although your Committee were fairly well acquainted, by means of various publications, such as the *Bulletins of the International Institute of Agriculture*, M. Sagnier's book "*Le Crédit Agricole en France*," and other works, with the transactions of the Bank of France, we thought it well to communicate direct with the General Secretary of that institution, M. Picard, mentioning the interest which the operations of the Bank had aroused amongst students of agricultural credit, and asking him to be good enough to furnish us with replies to certain questions which we put with a view to ascertaining precisely the methods by which the Bank found itself able to deal in advances of such small amounts. In reply, M. Picard was kind enough to furnish the Committee with a Memorandum on the organisation of agricultural credit in France, a translation of which will be found in the Appendices to our Report.‡

The direct relations of the Bank of France with rural borrowers.

95. The *direct* relations of the Bank with agriculturists are dealt with in sections (1) and (2) of M. Picard's Memorandum. He refers to the fact that out of 455 "pasture" accounts (*i.e.*, loans for the fattening of cattle) in the Bank's branches, 77 were for amounts not exceeding 5,000 francs (£200), each Bill being guaranteed by two signatures, together with a deposit of title deeds, or a third signature. It is obvious that this class of advance does not come under the designation of small rural credit, and that the methods adopted in connection therewith by the Bank of France are similar to those of the Joint Stock Banks in this country. M. Sagnier in his authoritative work above referred to says:—

"The immense majority of agriculturists can now be in direct relation with the Bank of France, and profit by all the benefits which can be derived from this relation. The Bank seems even to have a marked predilection for an agricultural clientèle. Experience shows that this clientèle is secure and reliable and does not prove disappointing. It is easy to confirm the reality of this fact. An examination of the 'pasture accounts' open at the end of 1909 reveals the modest proportions of most of these accounts. On that date 455 accounts were open in the branches, and were classified as follows:—

Bills under 5,000 francs (£200)	77
Bills between 5,000 and 10,000 (£200 and £400)	80
Bills between 10,000 and 20,000 (£400 and £800)	84
Bills between 20,000 and 50,000 (£800 and £2,000)	121
Bills between 50,000 and 100,000 (£2,000 and £4,000)	64
Bills above 100,000 (£4,000)	29

455

* See, for instance, *Statist*, dated 16th April, 1910, p. 806. "No bank in the world has ever more consistently and earnestly studied the interests of the small agriculturist and the small trader. The success of the peasant proprietors of France is largely due to the policy so steadfastly pursued by the Bank of France."

† *Compte Rendu des Opérations de la Banque de France pendant l'année 1911*, pp. 17, 18.

‡ See Appendix 4 to Minutes of Evidence.

"It is at once evident that the smallest accounts comprise the majority. Out of 455 accounts 241 do not exceed 20,000 francs. The really small accounts, those below 5,000 francs, form a proportion of 17 per cent. of the total. This is a categorical demonstration that the Bank of France is accessible to the greatest number."*

96. It is clear that credit of this nature, where the advances made run into hundreds and even thousands of pounds, cannot be termed *small* rural credit in the ordinary acceptance of the word in this country. It is of interest to note in passing that, as pointed out both by MM. Picard and Sagnier, the rate of discount on bills at the Bank of France does not exceed 3 per cent., save during exceptional and transitory periods, both for agricultural and commercial transactions. The chief reasons for this are to be found in the nature of the organisation and the large reserve of the Bank, and in special monetary laws.

The relations of the Bank of France with rural borrowers through local credit Societies and Regional Banks.

97. Turning from the direct to the indirect relations of the Bank of France with agriculturists, it will be seen from (3) in M. Picard's Memorandum that an elaborate organisation has been set up through which the main operations of the Bank of France in the sphere of small rural credit are carried out. Under the French law of November, 1894, modified by that of January, 1908, local co-operative Credit Societies have been steadily created. There were in France in 1911, 3,946 of such Societies (apart from over 670 Durand Societies), with a membership of 185,552, and loans outstanding to the value of £2,464,000.† Above these Societies are about 100 District or Regional Banks which discount bills endorsed by the borrower and by the local Credit Societies, these bills being finally re-discounted when necessary by the Bank of France.

"Such," M. Picard says, "so far as concerns short term credit, is the organisation which brings the Bank of France into touch with the agricultural classes. The difficulties which might arise with regard to estimating the solvency of a large body of small debtors are minimised by their mutual solidarity, which is attested by the signatures of the Local and Regional Banks. The same agencies obviate any necessity for travel on the part of the borrower, who finds, on the spot where he is, the credit of which he stands in need.

"Verification of the resources and of the security represented by the signatures appended to agricultural bills is, in addition, greatly facilitated by the presence on the Administrative Council of each branch of the Bank of a representative of the farming interest. Besides, for some years past the Bank has appointed a representative of that interest to sit on its Governing Council."

Length of period for which Bank of France advances rural loans.

98. In reply to our question as to the duration of the period for which agricultural loans are granted by the Bank of France, M. Picard states that

"There is no departure in favour of agricultural credit from the statutory law which uniformly fixes three months as the maximum duration of bills discounted by the Bank, no matter what their origin. It should be noticed in this connection that the period during which the bills remain in the hands of the Regional and Local Banks is added to the maximum duration of the Bank's discounts in order to prolong the credit allowed to the borrower. The further credits obtainable by a borrower on a particular security, after the expiration of current loans, do not necessitate any fresh formality on his part as regards the new allotment of this security. Bills may be forwarded by post in the case of a client residing in a town where no branch of the Bank is situated."‡

Close relations between the State and the Bank of France.

99. The close relations existing between the State and the Bank of France, and the large sums advanced to the French Government by the Bank for purposes of rural credit, will be referred to in that section of our Report dealing with the policy of advances from the State towards the funds of agricultural credit institutions. We have devoted some space to the consideration of the methods of the Bank of France because of the widespread impression that this Bank has found a solution to the difficulties which are met by a commercial Banking institution when dealing with the smaller credit needs of agriculture. It is fairly obvious that if an important Bank like this, in direct relations with the State, and with special privileges attached to its Charter, is unable through its many branches to meet the needs of the smaller cultivators of the soil by means of *direct* financial transactions with the latter, ordinary Joint Stock Banks are not likely to succeed in solving the problem.

Reason for success of Bank of France in dealing with small loans.

100. The Memorandum supplied to us by M. Picard, combined with other official information, shows plainly that it is chiefly by means of a well-organised system having

* *Le Crédit Agricole en France* (M. Sagnier), 1911, pp. 131-2.

† *An Outline of the European Co-operative Credit Systems*, 1913, p. 57.

‡ See Appendix 4 to Minutes of Evidence.

for its foundation the small local Credit Societies—these Societies being in turn combined under numerous Regional Banks—that the Bank of France is enabled to deal with loans of small and even trifling amounts. When bills drawn by the small farmer at last reach the Bank of France, they bear the signatures not only of the borrower and his sureties, but also of the particular Credit Society and Regional Bank concerned; these signatures obviously affording the amplest business security for the repayment of the loan.

M. Sagnier, in the final paragraph of his chapter on the Bank of France, after quoting the figures we have given above as to the direct advances made by the Bank for such purposes as “pasture” loans, says:—

“Doubtless the small cultivator who needs, in the course of the year, an advance of some hundreds of francs, could not have recourse to such methods as have just been indicated. For him the mutual Credit Society, under whatever form it be organised, is the natural resource. The small local Society and the huge banking institution thus unite in the same work, and render the same service to different clientèles.”*

These views we believe to be equally applicable to the conditions of agriculture in Ireland, where, as in the case of France, so large a proportion of the cultivators of the soil are small farmers.

CONCLUSIONS.

101. Your Committee's conclusions in regard to the relation of the Irish Joint Stock Banks to rural credit may be summarised thus:—

(a) There has been in recent years a very large extension of the Joint Stock Banking system in Ireland. The enormous growth in deposits and cash balances from $5\frac{1}{2}$ millions in the year 1840 to over 62 millions in 1913, and the great increase in Banking Offices (now numbering about 870), are sufficient proof of this. These Banks have undoubtedly done much to adapt their methods as far as possible to the credit requirements of small farmers. Paras. 35-49, 52-4, 67-75.

(b) The Joint Stock Banking system has, however, been evolved mainly to meet the need of the commercial and business world, not of agriculture. Various characteristics of agricultural credit—such as the length of term of loans, the seasonable nature of the returns, the risks peculiar to the agricultural industry, the uncertainty of the security offered by land, the lack of farming accounts, and the frequent absence of touch between the Banks and the small farmers—render it difficult for the Banks to deal on commercial lines with small agriculturists. Para. 55.

(c) Joint Stock Banks hold most of their funds at call, and cannot therefore conveniently deal in long term loans; while, unlike Credit Societies, they must earn a profit for their shareholders, and must therefore turn over their capital as rapidly as possible. Paras. 56-61, 87.

(d) The Banks themselves do not desire to undertake the dealing in advances of very small amounts, which are troublesome and unprofitable business: nor can they take into account, as a rule, the object for which the loan is required. Thus their loans have not the educative influence which is exerted upon the borrower by the supervision exercised by a well-managed Credit Society. Paras. 62-5, 88-9.

(e) The obtaining by a borrower of sureties satisfactory to the Bank; the expenses and loss of time often incurred in journeying to the Bank, and bringing sureties (not only on the occasion of obtaining the loan, but on its subsequent renewals, when necessary); and the obligation of the borrower to his sureties until the bill is paid off, frequently add greatly to the real cost of the loan to a small farmer. Paras. 77-86.

(f) The credit needs of agricultural labourers are not met by the Joint Stock Banks. Para. 76.

(g) The operations of Co-operative Credit Societies will, in the end, assist rather than compete with those of the Joint Stock Banks, for the two institutions, broadly speaking, do not deal in the same class of credit. We welcome the existing relations between the Banks and the Societies in Ireland, especially the beneficial arrangements for overdrafts, and we recommend their extension in suitable cases on the lines indicated elsewhere in our Report. Para. 90.

(h) Finally, the evidence given amply justifies, in our opinion, the conclusion that the Irish Joint Stock Banks, willing as they undoubtedly are to adapt themselves as far as possible to the requirements of small rural credit, have not been able fully to meet the needs of the agricultural industry of the country. Nor, for the various reasons we have set forth above, do we believe that there is any real prospect of such further adaptations taking place as will overcome, to a material extent, the many difficulties inseparable from any attempt to fit in the organisation of these commercial and business Banking institutions with the special requirements of small agriculturists.

* *Le Crédit Agricole en France*, 1911, p. 131.

SECTION II.

POST OFFICE AND TRUSTEE SAVINGS BANKS IN IRELAND.

Although the Post Office and Trustee Savings Banks cannot be considered as credit institutions in the strict sense of the term, they have in several respects an important relation to the subject of rural credit in Ireland.

Relation between Savings Bank deposits and rural credit.

See paras.
359-365.

102. As is clearly indicated in that portion of our Report dealing with Co-operative Credit Societies, one of the most important functions of these Societies is that of attracting the small savings of the district. All the leaders of the co-operative credit movement on the Continent, from Schulze and Raiffeisen onwards, have recognised the vital importance of developing, not only the lending but the thrift side of rural credit. The progress, however, of this latter branch of the movement must naturally be to a greater or less extent retarded in any country if there are already in active operation thrift institutions, such as Government or Municipal Savings Banks, which, through the security which they offer to depositors, are formidable competitors with Credit Societies possessing no such State or Municipal guarantee.

The large deposits in Irish Post Office Savings Banks also furnish indisputable proof that there are ample funds in rural districts for the successful establishment of Credit Societies, if the confidence of the small depositors could be secured.

See paras. 127-9.

In several foreign countries there is a more direct relation between State or other Savings Banks and rural credit, seeing that the funds of the Savings Banks can, under certain conditions, be utilised in making advances to agriculturists or to Credit Associations, in investment in mortgages, and in other ways. But generally speaking "the object of ordinary Banks is credit, and they merely attract depositors, *i.e.*, savings, in order to utilise them in business; in Savings Banks the encouragement of thrift, *i.e.*, the gradual accumulation of petty savings or of a provident fund is the object aimed at, and the Banks merely enter into the business of credit in order to provide a fruitful investment for the accumulated savings." . . . A Savings Bank "is an adjunct to credit rather than a true source of credit." *

DEPOSITS IN THE IRISH POST OFFICE AND TRUSTEE SAVINGS BANKS.

103. In Ireland the Post Office Savings Banks have, more especially in recent years, attracted very large sums in deposits, the amount on the 31st December, 1913, being £13,167,000, in 656,700 separate accounts. In the Irish Trustee Savings Banks the sum of £2,612,000 was held on deposit on the same date in 56,867 accounts. These two institutions, therefore, hold £15,779,000 of the savings of the Irish people as compared with £2,638,000 in the year 1870, an increase of almost 500 per cent. in 43 years. These savings are, to a considerable extent, lodged by small depositors, the £62,142,000 held by the Irish Joint Stock Banks representing, as a general rule, depositors of a more substantial type. It is probable, therefore, that if the Co-operative Credit movement in Ireland were to succeed to a greater extent than it does at present (it now holds, after twenty years' working, £30,000 in deposits) in attracting the savings of the smaller rural classes, such success would take place at the expense rather of the Post Office Savings Bank than of the Joint Stock Banks. Even if the present deposits in Credit Societies were to be multiplied by ten, this increase would—assuming that all the additional savings were transferred from the Post Office, and not largely from private hoardings—entail a diminution of little over a quarter of a million, or only 2 per cent., in the deposits of the latter institution.

Paras. 369-370.

CHART AND SUMMARY TABLE SHOWING GROWTH OF SAVINGS BANK DEPOSITS IN IRELAND.

103A. The remarkable growth of the deposits in the Post Office Savings Banks of Ireland since the origin of the system will be readily seen from the chart facing p. 22. The following

* *Report on Land and Agricultural Banks* (Nicholson), 1895, pp. 198-9.

are the figures of these deposits and of those in the Trustee Savings Banks on the 31st December of each of the years indicated below.

Year.	Post Office Savings Banks in Ireland.*		Trustee Savings Banks in Ireland.†	
	Amount of Deposits.	Number of Separate Accounts.	Amount of Deposits.	Number of Separate Accounts.
	£		£	
1820	—	—	103,000	—
1830	—	—	1,135,000	—
1840	—	—	2,177,000	—
1850	—	—	1,292,000	—
1860	—	—	2,143,000	—
1870	583,000	—	2,055,000	—
1880	1,556,000	82,131	2,079,000	53,910
1890	3,723,000	198,790	1,973,000	49,643
1900	8,059,000	381,865	2,309,000	50,318
1910	11,931,000	606,397	2,515,000	56,192
1912	12,824,000	641,800	2,606,000	56,652
1913	13,167,000	656,700	2,612,000	56,867

Importance attached by small depositors to security.

104. During our Inquiry many witnesses have emphasised the extreme value which the small Irish depositor attaches to absolute security for his savings, rather than to the rate of interest paid on them ; and have pointed out to us that, with the competition of a Post Office Savings Bank in almost every village in Ireland, depositors would be reluctant to transfer their savings from an institution giving such ample guarantee for safety to another organisation such as a Credit Society, not affording this security, although offering a higher rate of interest. The functions and position of the existing Savings Banks in Ireland cannot be overlooked in any adequate consideration of the problems of rural credit in Ireland, apart altogether from the question of the possibility of utilising the funds of these Banks for productive purposes. See paras. 383-6.

ORIGIN OF SAVINGS BANKS INSTITUTIONS IN THE UNITED KINGDOM.

105. Although the operations of Savings Banks in this country have now attained such far-reaching importance, these institutions are of comparatively recent creation. The first genuine Savings Bank was established in 1804, at Tottenham, in England, by six persons who acted as Trustees, and allowed as much as five per cent. interest on sums exceeding one pound which depositors entrusted to them for one year. This project, unfortunately, involved the Trustees in loss, and was abandoned. The next step in the history of the movement was the establishment at Ruthwell, in 1810, of a well-organised Savings Bank called "The Parish Bank Friendly Society." This venture was so successful that it led to the foundation during the following six years of almost eighty Savings Banks in England and Ireland.

First Savings Bank Legislation in 1817.

106. The first legislation on the subject was passed in 1817, when the Acts 57 G. III., c. 105 and c. 130, intended to stimulate the growth and to regulate the organisation of Banks for the reception of Savings in Ireland and England became law. These Acts were not extended to Scotland until the year 1835. Their leading provisions were as follows :— (1) Trustees were forbidden to make a profit out of the Bank ; (2) they were bound to remit to the Office for the Reduction of the National Debt all deposits exceeding £50 in the aggregate ; (3) the Office of National Debt was to allow interest at the rate of £4 11s. 3d. per cent. per annum (the Trustee Savings Banks themselves, as a rule, allowed their depositors 4 per cent.) ; (4) not more than £50 could be deposited by one person in any one year, but in England a depositor could deposit £100 in the first year.

The Savings Bank Acts of 1824 and 1828.

107. The next legislative step was an Act passed in 1824 (5 Geo. IV., c. 62), limiting deposits to £50 in the first year and £30 in any subsequent year, and providing that when

* First established in 1861 ; in 1862 the deposits amounted to £79,000.

† Returns first available for the year 1817, when the deposits amounted to £1,846.

the deposits of any individual exceeded £200, no interest was to be allowed on the excess over £200. An amending and consolidating Act of 1828 (9 Geo. IV., c. 92), provided, amongst other things, (1) that the Rules of each Trustee Savings Bank must be approved by the National Debt Commissioners; (2) that the rate of interest allowed by that Office should be reduced to £3 16s. 0½d. per cent., while depositors should receive from the Savings Banks interest at the rate of £3 8s. 5¼d. per cent.; (3) that no depositor should be permitted to deposit more than £150, although interest might be allowed to accumulate until the deposit reached £200. Within five years from the passing of this Act (*i.e.*, in 1833), 76 Trustee Savings Banks existed in Ireland, with almost 50,000 depositors, and deposits amounting to £1,373,993. In the same year there were in England 385 Trustee Savings Banks, with 414,000 depositors and almost £14,000,000 of deposits.

Abuses and irregularities were found to occur in connection with the Trustee Savings Bank system, especially in the management of funds. A Commission of Inquiry was therefore appointed in 1858, the Report of which resulted in the Act of 1863 referred to below.

POST OFFICE SAVINGS BANKS ESTABLISHED, 1861.

108. A very important step in the development of the Savings Bank System was the passing of the Act of 1861 (24 & 25 Vic. c. 14), establishing Post Office Savings Banks, which immediately became exceedingly popular in England and Ireland. They have not, however, rivalled the Trustee Savings Banks in popularity in Scotland, where these latter institutions hold £20,000,000 in deposits, as compared with £8,000,000 in the Post Office Savings Banks. The rate of interest fixed by the Act of 1861 was 2½ per cent.

Savings Bank Act of 1863; special clause as to limitation of responsibility of Trustees in Ireland.

108A. In 1863 a further Act was passed (26 and 27 Vic. c. 87), consolidating and amending the laws relating to Savings Banks generally. By Section 11. it was enacted that no Trustee or Manager of any Savings Bank should be personally liable, save (1) for moneys actually received by him on account of or for the use of the Bank, and not paid over or disposed of according to the Rules; (2) for neglect or omission in complying with the Rules as to audit, examination of accounts held by him, and keeping of minutes; and (3) for neglect or omission in taking security from officers. By Section 12 of this Act, however, special power was given to the Trustees and Managers of Savings Banks in Ireland to limit their responsibilities. The following is the text of this Section:—

“Any trustee or manager of a savings bank in Ireland who has declared or shall declare in writing under his hand, deposited with the Commissioners for the Reduction of the National Debt, that he is willing to be answerable for a specific amount only, such amount being in no case less than one hundred pounds, shall not be liable to make good any deficiency which may thereafter arise in the funds of such savings bank beyond the amount specified in such writing; provided always, that the trustee and manager of every savings bank in Ireland shall be personally liable for all moneys actually received by him on account of or to and for the use of such savings bank and not paid over and disposed of in the manner directed by the rules of the said savings bank: and an extract of this provision shall be enrolled as one of the rules of every such savings bank in Ireland, and printed and affixed in every office or place where deposits are received, with the names and places of residence of the trustees and managers for the time being, and the amount (if any) to which they have collectively or individually limited their responsibility.”

Select Committee of Inquiry, 1888; importance of adequate supervision and audit.

109. In spite of the provisions of the Act of 1863 for proper management and audit, much negligence and fraud occurred in connection with the Trustee Savings Banks. A Parliamentary Select Committee was appointed in 1888, and reported that though the Act was sufficient, if its provisions were carried out, the actual administration was defective; and that further supervision was necessary, if confidence were to be maintained. The Committee recommended the formation of an independent Board of Audit “to secure a continuous audit and a continuous examination at uncertain times.”*

The history of these Banks furnishes yet another illustration of the vital importance of strict independent audit and supervision arrangements in connection with all institutions dealing with the money of others, a question which has in various ways been impressed upon our notice during our Inquiry, especially in relation to Loan Fund Societies and Credit Societies. In referring to the steps found necessary by the State for the protection of depositors in these Savings Banks, Sir F. A. Nicholson states: “The practical sense of the nation, in spite of its traditional love of independence in business matters, not only permits but requires official and quasi-official supervision *ab extra* where institutions of public benefit relating especially to the welfare and development of the humbler classes are concerned.”†

* See *Report of Select Committee on Trustee Savings Banks*. [Cd. 301-1889], p. vii.

† *Report on Land and Agricultural Banks*, p. 215.

The Savings Bank Act of 1891 ; Inspection Committee established.

110. In 1891 a further Savings Bank Amending Act (54 and 55 Vic., c. 21) became law, mainly as a result of the above Report. A portion of Section 1 enacted that :

“(1) A trustee savings bank may not be designated or described in any manner which imports that the Government is responsible or liable to depositors for money placed in the safe keeping of the bank, and may not bear any title other than that of ‘savings bank certified under the Act of 1863,’ with such additional local description, if any, as may be required for the sake of distinctiveness.”

This measure established an Inspection Committee of Trustee Savings Banks, the powers and duties of which were fully set forth. This Committee was required to report annually their proceedings to the National Debt Commissioners, the Report to be laid before Parliament. In their first annual Report the Committee announced the discovery of a considerable number of irregularities and the existence of laxity in management.

Increase in deposits due to changes made by Act of 1893.

110A. The Savings Bank Act of 1893 (56 and 57 Vic., c. 69), was an important measure, the main provisions of which raised the maximum amount allowed to be deposited in cash by any person in one year from £30 to £50 ; raised to £200 the annual maximum amount of Government Stock allowed to be purchased by one person ; and increased the total amount of Government Stock which could at one time be credited in the books of a depositor to £500 (the previous limit had been £300). A natural result of this legislation was a sudden and striking rise in the gross amount on deposit in the Savings Banks. In Ireland alone the figures for 1894 showed an excess of £740,000 over the 1893 Returns. In the following year, 1895, the deposits in the Irish Post Office Savings Banks amounted to £5,603,000, and in the Trustee Savings Banks to £2,075,000, or a total sum of £7,678,000, as compared with £6,171,000, in the year 1892.

The fact that the raising of the maximum amount which could be deposited in a year caused such a sudden and considerable increase in the total deposits would seem to indicate that Savings Bank deposits were no longer drawn almost exclusively from the poorest classes, in whose interests the earlier Savings Bank legislation had been drawn up. We have had evidence showing that it is not unusual for fairly large depositors to place their savings in the Post Office Savings Bank in preference to the Joint Stock Banks, the Government security and, to a less degree, the slightly higher rate of interest, being the chief reasons given for the adoption of this course.

Special investments permitted by Act of 1904.

110B. An Act of the year 1904 (4 Ed. VII. c. 8), made various provisions in regard to the appointment of auditors for Trustee Savings Banks, the amalgamation of two or more Trustee Savings Banks, and the investment of the interest of the funds of such Banks. Section 12 provided that :—“(1) The Postmaster-General may enter into an arrangement with any government savings bank authority in any British possession or foreign country for the transfer of sums standing to the credit of depositors from such a government savings bank to the Post Office Savings Bank, or from the Post Office Savings Bank to such a government savings bank.” This Act also made it lawful (as recommended by the Select Committee on Savings Banks Funds, 1902) for Trustees to make special investments, with the approval of the National Debt Commissioners. Such investments may be made in securities under the Local Loans Act, 1875, and in loans secured on certain local rates. Such special investments are not in any way guaranteed by the Government.

Return of the Deposits in each Post Office and Trustee Savings Bank in Ireland.

111. The most instructive and at the same time authoritative information which your Committee have received as to the large extent to which Irish depositors make use of the Post Office Savings Banks, (and, in a much lesser degree, of the Trustee Savings Banks), is contained in a Return furnished by the Treasury to an Order of the House of Commons.* We regret that the size of this document (it contains 31 closely printed pages of figures) prevents our reproducing it as an Appendix ; we have, however, in the Appendices included Summary Tables giving separately the figures for each county in Ireland.†

This comprehensive Return gives, classified under the various Counties, the name of each Post Office Savings Bank in Ireland which was open on the last day of the years 1881, 1896, 1907, and 1912, together with the number of individual accounts of depositors in each Post Office, and the amount, inclusive of interest, standing to their credit on those dates. It will be seen that the number of separate Post Office Savings Bank accounts in

* *Savings Banks (Ireland) Return.* (No. 272-1913.)

† See Appendices 7 and 8, *Minutes of Evidence.*

Ireland rose from 97,000 in 1881, to over 640,000 in 1912. The total amount of deposits rose from £1,723,395 to £12,824,000 in the period of thirty-one years from 1881 to 1912. This was an increase of £11,100,000, or considerably over 600 per cent., although between the years 1881 and 1911 the population of Ireland declined from 5,174,836 to 4,390,219, a decrease of over 15 per cent.

Remarkable amount of Post Office Deposits in many rural districts of Ireland.

112. A closer study of the figures given in the Return for each Post Office reveals some remarkable totals for the deposits in many rural districts remote from urban and manufacturing centres. During our Inquiry we took the opportunity on many occasions of ascertaining whether witnesses from country districts had any idea of the amount of savings deposited in the Post Office Savings Bank of their particular neighbourhood. In most cases the witnesses expressed much surprise on hearing the largeness of the amount. Their general attitude of mind on the matter may perhaps best be expressed in the words of one of their number who, on learning from us the amount deposited in the local Post Office, replied: "If anyone else told me, I would not believe it!"

We append some figures for Post Offices in country districts, taken at random from the Returns for 1907 and 1912.

	1907.	1912.		1907.	1912.
	£	£		£	£
Corofin, Co. Clare ...	6,480	8,339	Ballingarry, Co. Limerick ...	6,287	6,826
Miltown Malbay, Co. Clare ...	13,885	14,225	Kilfinane, Co. Limerick ...	6,636	9,337
Millstreet, Co. Cork ...	17,664	26,056	Draperstown ...	16,462	24,429
Clonmany, Co. Donegal ...	7,903	12,530	Dungiven, Co. Londonderry ...	11,626	12,008
Carndonagh, Co. Donegal ...	15,499	17,849	Kilrea, Co. Londonderry ...	28,017	33,038
Dunfanaghy, Co. Donegal ...	10,409	10,736	Lanesborough, Co. Longford ...	10,767	15,350
Milford, Co. Donegal ...	16,948	18,106	Ballaghaderreen, Co. Mayo ...	36,503	46,625
Glenties, Co. Donegal ...	9,819	14,211	Ballyhaunis, Co. Mayo ...	39,193	52,247
Bunbeg, Co. Donegal ...	12,890	15,540	Charlestown, Co. Mayo ...	19,421	27,991
Ballygar, Co. Galway ...	20,575	23,189	Ballinlough, Co. Roscommon ...	15,747	21,516
Gort, Co. Galway ...	12,347	17,740	Tubbercurry, Co. Sligo ...	32,359	37,279
Loughrea, Co. Galway ...	18,668	21,763	Borrisokane, Co. Tipperary ...	10,714	14,881
Dingle, Co. Kerry ...	13,290	19,278	Dromore, Co. Tyrone ...	11,764	15,412
Ballinamore, Co. Leitrim ...	15,107	20,386	Kiltegan, Co. Wicklow ...	4,725	5,319
Mohill, Co. Leitrim ...	15,350	20,846	Tinahely, Co. Wicklow ...	6,322	8,765

During our Inquiry several cases were brought under our notice in which small agriculturists in Ireland in order to invest their savings in the Post Office Savings Bank at 2½ per cent. borrowed money from other sources, such as Loan Fund Societies and Joint Stock Banks, at 6 or 8 per cent.

Economic Injury by transfer of Post Office Savings Bank Deposits from Ireland.

113. We cannot but express our extreme regret that these large sums of money, belonging, as a rule, to small rural depositors, and found in the Post Office Savings Banks all over the country, should be entirely withdrawn from productive use in the locality by being transferred to London for investment in Government securities.

It is hardly necessary to point out the enormous assistance which might be rendered to the economic progress of rural Ireland if it were possible to retain even one-tenth of this money in the country for the purpose of lending it out again to small and medium farmers and labourers for reproductive use on their farms and plots. The deposits in the Irish Joint Stock Banks are probably to a considerable extent utilised in the trade, commerce, and agriculture of Ireland, but this cannot be said of the deposits placed in the Post Office Savings Banks. Nor does it appear that the Exchequer authorities have in the past been over-anxious to receive such increasingly large sums. For instance, when the late Lord Goschen was Chancellor of the Exchequer he stated that he was opposed to any measure which would largely increase the already gigantic amount standing to the credit of depositors.

But in more recent times the Treasury have welcomed the large deposits which enable them to borrow money more cheaply than they could in the open market. Mr. H. W. Wolff has repeatedly dwelt in his writings upon the many objections to this locking up of the people's savings in securities instead of allowing them to be put to reproductive uses as is done in several other countries.* The contrast between the benefits wrought by £1,000 in deposits in a Co-operative Credit Society and the same amount placed in a Savings Bank is a striking one.

* See e.g., *Co-operative Banking* (1907), pp. 137-146.

In December, 1913, the enormous sum of over £186,000,000 was due to the Post Office Depositors in the United Kingdom, of which over £13,000,000 belonged to depositors in Ireland. This huge amount is held absolutely at call. Various authorities have from time to time pointed out that the amount deposited is now so enormous that in the event of any serious crisis, which caused depositors to withdraw largely at the same time, there might be considerable danger. In recent years the conditions in this respect have been considerably modified by the fall in the price of securities and the rise in the rate of interest.

Credit Societies retain deposits in locality, and are educative as compared with Savings Banks.

114. The late Lord Goschen, so far back as 1887, recommended Co-operative Credit Societies in the House of Commons as a means of keeping deposits in the locality and at the same time educating the local depositors in looking after their own interests. Although the Post Office Savings Bank system undoubtedly to a certain extent encourages thrift, still its educative effect upon the depositor is not to be compared with the influence of a Co-operative Credit Society, in the administration of which, if the depositor be a member—and especially a member of the Committee—he can take an active share, and feel a personal interest in the allocation and use made of the Society's funds. Compared with this system, both the Post Office Savings Bank and the Trustee Savings Banks are mechanical and non-educative in their action, and are open at the same time to the charge of removing money, for investment in securities, from a locality where its proper circulation would work much benefit.

“Current accounts” in Post Office Savings Banks.

115. The Post Office Authorities have, it appears, found the tendency of some depositors to utilize their accounts as current accounts rather troublesome. In December, 1909, the following special Notice was issued to certain clients of this type, but its use was not continued, we understand, for very long :

“The Postmaster-General desires to call attention to the fact that the cost of administering the Post Office Savings Bank has been much increased of late years by the tendency on the part of some depositors to use the institution for the purposes of a current account instead of for the purpose of simple saving which it was established to promote.

“Every transaction, great or small, has necessarily to be reported to London for record in the ledgers at the Central Office. This renders the business very costly when depositors make frequent deposits and withdrawals, especially when the individual sums are of small amount, or when money is merely deposited to be withdrawn again in a short time.

“The Postmaster-General feels sure that in many cases such abuse of the facilities provided is only due to thoughtlessness, and he therefore appeals to depositors (whose interests are identical with those of the Department) to assist him by conducting their Savings bank business with as few separate transactions as possible.”

Savings Bank Deposits per head of Population in various Countries.

116. In the Appendices* will be found detailed figures giving for each of the chief countries of the world the total amount of deposits in the Savings Banks, and the average amount of such deposits per head of population. In any attempted comparison, however, between various nations in this matter it is essential to bear in mind that in some countries the Savings Banks may be the most important thrift institutions, with few competitors ; while in other countries the Savings Bank figures may occupy a very secondary place as a real index of the savings of the people. Again, in some countries—as for instance Germany—the Savings Banks for various reasons may be much more utilised by the well-to-do and larger depositors than is the case elsewhere. In Ireland the deposits of the Joint Stock Banks are almost four times as large as the total Savings Bank deposits. If Savings Bank deposits alone are taken into account, Ireland occupies, in respect of savings per head of population, eighteenth place amongst the countries named, but no useful deduction can, we believe, be made from this fact.

We insert here the *per capita* Savings Bank figures taken from the Table in Appendix. The striking contrasts between the figures of different countries are largely accounted for

* Appendix 6 to Minutes of Evidence. These figures were furnished by Mr. J. R. Cahill in connection with his evidence. (See Minutes of Evidence, 18894-18901.)

by special considerations of the nature above indicated. The calculations are based upon the published figures for the years 1911 or 1912 in most cases.

Country.	Savings Bank Deposits per head of population.	Country.	Savings Bank Deposits per head of population.
	£ s.		£ s.
1. Denmark	18 11	13. Belgium	5 13
2. New Zealand	17 1	14. England and Wales	5 6
3. Switzerland	16 16	15. Italy	5 0
4. Australia	15 14	16. Hungary	4 18
5. Prussia	14 10	17. Holland	3 16
6. Germany (including Prussia)	13 10	18. Ireland	3 10
7. Norway	12 11	19. Finland	3 4
8. U. S. of America	9 19	20. Newfoundland	2 13
9. Austria	9 16	21. Canada	1 13
10. Sweden	9 2	22. Russia	0 19
11. Scotland	5 17	23. South Africa	0 19
12. France	5 14		

The countries with the largest number of depositors are Germany (22 $\frac{1}{3}$ million depositors), United Kingdom (14 $\frac{1}{2}$ millions), France (14 $\frac{1}{2}$ millions), United States (10 millions), Italy (8 millions), and Russia (8 millions).

DEPOSITS IN TRUSTEE SAVINGS BANKS IN IRELAND.

117. The Trustee Savings Banks have never attained in Ireland the position occupied by the Post Office Savings Banks. Although the latter institutions were not established till 1861, they rapidly overtook in the amount of their deposits the Trustee Savings Banks which had existed since 1816. This steady rise of the Post Office in public confidence and the comparatively stationary condition of the Trustee Banks in Ireland is seen at a glance from the comprehensive Chart facing p. 22, and from the figures for certain selected years already furnished in our Report.*

It will be noted that in 1870 the deposits in the Post Office Savings Banks were less than one-third of those in the Trustee Banks, while in 1913 the Post Office deposits were over five times those held by the latter. Recent years, however, show an upward tendency in the deposits of the Trustee Banks though the figures of some earlier years, such as 1845, are still unattained. Over one-third of the total deposits for Ireland in these institutions are in the Belfast Savings Bank.

Information regarding the twelve existing Irish Trustee Savings Banks.

118. The latest published statistics of the Trustee Banks are contained in a Treasury Return issued in July, 1913,† from which it appears that there were, at the close of 1912, twelve of these organisations in Ireland. The following is a summary of the more important information in regard to them :

Name of Trustee Savings Bank.	Year in which business commenced.	Number of Accounts open on 20th Nov., 1912.	Total amount owing to depositors on 20th Nov., 1912.	Rate of Interest paid to depositors.	Annual Expenses of management.
			£	£ s. d.	£
1. Armagh	1818	3,084	196,099	2 10 0	599
2. Belfast	1816	22,241	900,645	2 10 0	2,504
3. Coleraine	1832	2,768	186,264	2 10 0	416
4. Cork	1817	7,154	396,926	2 8 0	1,526
5. Dublin	1818	8,567	234,343	2 10 0	906
6. Dungannon	1819	1,099	74,379	2 10 0	225
7. Enniskillen	1825	2,159	149,864	2 10 0	409
8. Limerick	1820	889	67,617	2 6 9	313
9. Londonderry	1816	5,509	262,679	2 10 0	788
10. Monaghan	1819	569	30,507	2 10 0	95
11. Roscrea	1830	201	16,949	2 10 0	52
12. Waterford	1816	2,412	122,891	2 10 0	446
Totals	—	56,652	£2,639,163	£2 10 0 Average.	£8,279

* See Table on p. 39.

† No. 214 of 21st July, 1913.

Large number of Trustee Savings Banks closed in Ireland.

118A. Between the years 1862 and 1904, forty-three of these Banks had been closed in Ireland, *i.e.*, those at Ballymena, Gracehill, Lisburn, Cavan, Ennis, Bandon, Fermoy, Youghal, Carndonagh, Castlewella, Hillsborough, Newry, Warrenpoint, Castleknock, Ballinasloe, Celbridge, Kilkenny, Parsonstown, Tullamore, Limavady, Ardee, Drogheda, Dundalk, Castlebar, Kells, Navan, Abbeylax, Portarlinton, Boyle, Sligo, Cashel, Clonmel, Thurles, Omagh, Strabane, Clogher, Cookstown, Castlepollard, Gorey, Wexford, Arklow, Baltinglass, and Bray. The latest Trustee Bank closed was that at Cookstown, which terminated its operations in the year 1904. At the time that these forty-three Banks closed they held £544,560 in deposits, of which £151,630 was transferred (by Transfer Certificate) to the Post Office Savings Bank; in addition, a considerable amount was probably transferred in cash to the latter institution. The number of depositors amounted to about 14,600, of whom 3,665 transferred their accounts to the Post Office.*

In the years 1838 and 1839 there were 80 Trustee Savings Banks in Ireland, this being the largest number in existence at one time.

Disadvantages of the transfer of Trustee Savings Banks Deposits from Ireland.

119. Most of the existing Trustee Savings Banks are situated in the cities and larger towns of Ireland, the Banks in Belfast, Dublin, Cork, and Londonderry alone containing 76 per cent. of the depositors, and 67 per cent. of the deposits in these institutions for the whole country. In the Mountpottinger Branch of the Bank at Belfast, a sum of £121,715 stood to the credit of 3,631 depositors in November, 1913.

The bulk of the funds of the Trustee Savings Banks in Ireland consist in the deposits of the urban working-class population rather than of the inhabitants of rural districts; these funds have not, therefore, so direct a bearing upon the problem of agricultural credit as the Post Office Savings Banks deposits have. Nevertheless, your Committee cannot but express their regret that a sum of over two and a half millions should thus be transferred from productive uses in Ireland for investment in Government securities. A comparison of the use made in Germany, for agricultural and other purposes, of the deposits received by the Communal and Municipal Savings Banks serves to show how wasteful, from an economic standpoint, is this constant sending away, from a comparatively poor country, of the savings of her people—savings which if utilized in schemes of rural co-operative credit or in other ways, might, without appreciably lessening the guarantee to the depositors, afford much-needed aid to the smaller agricultural and industrial classes. Nor should it be forgotten that, like the Post Office Savings Bank, the Trustee Savings Banks, while undoubtedly stimulating thrift, have not anything approaching the general educative influence in various directions which a well-managed Co-operative Credit Society is capable of exercising.

LARGE DEPOSITS IN THE SAVINGS BANKS OF GERMANY.

120. In that portion of our Report dealing with the deposits in Co-operative Credit Societies figures will be found showing the remarkable extent to which these Societies in Germany have developed the thrift side of the movement. At the end of 1910, a sum of no less than £92,429,000 was held as savings deposits by 14,729 Societies, while the deposits on current account amounted to an additional sum of £10,865,000.

These figures for Credit Societies are all the more remarkable when the large number of Savings Banks in Germany is taken into account. The deposits in these latter institutions amounted, at the end of 1911, to the huge sum of £879,000,000. Of this amount, £515,000,000 was invested in mortgages, urban and rural. In 1910 the total investments of the Savings Banks in rural mortgages alone were estimated at £170,000,000. In the same year the Prussian Savings Banks had invested funds amounting to £579,000,000, of which £115,000,000 was outstanding on the security of rural property. These figures are convincing proof of the pre-eminent importance of German Savings Banks as Mortgage Credit Institutions for small and medium agriculturists.†

The most outstanding difference between the positions of Germany and Ireland in regard to thrift institutions is that in the former country there are no State or Post Office Savings Banks. Most of the public Savings Banks have been established and are managed

See paras.
359-365.

* *Vide* Parliamentary Return No. 270, issued in 1907, pp. 83-7.

† *Report on Agricultural Credit and Co-operation in Germany*, p. 39.

and guaranteed by Communal, District, or urban authorities; apart from which bodies, the Savings Banks have no separate legal existence. In 1910 there were 2,844 public Savings Banks in Germany (not including Brunswick), with 7,404 branches, and 228 other Savings Banks, with 294 branches.

Differences between United Kingdom and Germany in respect of Savings Banks.

121. The deposits held by the Savings Banks, Post Office and other, of the United Kingdom, did not amount in the year 1911 to 27 per cent. of the German figures.* It is difficult, however, to draw any definite or useful conclusion from this fact, owing to the dissimilar circumstances of the two countries. We note that on the 12th March, 1913, the Postmaster-General was asked in the House of Commons whether he would "state what considerations make a comparison of the German Savings Banks statistics as to deposits and depositors with British Savings Banks statistics misleading or inapplicable for purposes of reference." The following was the reply given:—

"Broadly speaking, the considerations which make a comparison between the statistics of the British and German Savings Bank deposits misleading, except with very considerable qualifications, are—

(1) "That in the United Kingdom deposits are limited to £200, and the amount deposited to £50 in any one year. In Prussia and other German states, the practice varies, but in the great majority of cases there is either a much higher limit than that which prevails in the United Kingdom or no limit at all. The detailed figures are at the disposal of the honourable Member if he desires to consult them.

"The result is that the German Savings Banks have also become deposit-banks for the well-to-do classes.

(2) "The attractiveness to depositors of the German Savings Banks is increased by the relatively high rate of interest allowed (viz., on an average about $3\frac{1}{2}$ per cent. in Prussia), as compared with $2\frac{1}{2}$ per cent. in the United Kingdom.

(3) "The great Joint Stock Banks have not attained so great a development in Germany as in the United Kingdom, and shares in joint stock companies must not be less than £50. Both these causes, combined with the high rate of interest on deposits in the Savings Banks, tend to deflect the deposits and investments of small capitalists to the Savings Banks.

"For the above reasons the figures showing the total deposits in German Savings Banks do not possess the same significance as an index of the savings of the working classes as those relating to deposits in Savings Banks in this country."

German Savings Banks as sources of rural credit.

122. A concise history of German Savings Banks is given by Mr. Cahill in his Report, from which we take the following extracts:—

"The earliest German savings banks were founded to serve as institutions for safeguarding the poorer classes against absolute poverty by providing a place for the safe deposit of small sums of money until such should be required in bad times. Established in connection with the efforts to reform the poor laws, they were to be regarded rather as philanthropical institutions. The first was founded at Brunswick, in 1768.

But the savings banks lost this character of philanthropy early in the nineteenth century, and have developed along the more general lines of institutions for the furtherance of thrift. They have been established usually by and under the guarantee of public authorities, and in normal cases do not aim at profits beyond the obtaining of an adequate interest upon money deposited with them and the payment of the expenses of management. Any surpluses remaining after meeting these charges and making suitable appropriations to reserve, are applied to objects of public welfare. In primary aim they are distinguishable from banks in the ordinary sense of the term; they seek deposits not in order to be in a position to grant credit for their own profit but to foster thrift and only to utilise deposits for investments in the interests of the depositors themselves. But while there is this distinction in their aims, German savings banks constitute, by reason of their unexampled development and freedom of investment, credit sources of great importance. Not being obliged to deposit their funds at interest with the State Treasury, or invest in stocks and shares only, as such banks are constrained to do in some other countries, but seeking to obtain on investments the best returns consistent with the absolute security of their funds, they have lent a very large percentage of their deposits on mortgages, a considerable proportion of which have been on rural property.

In regard to Savings Banks in rural districts the Report states:—

"The communal and district banks serve the rural classes more directly than the urban banks, and it is interesting to note the part played by the public agricultural authorities in the extension of these institutions in rural districts. The first rural district savings bank was opened in 1831, a few more being established in the succeeding twenty years. In 1850 the National Advisory Council to the Prussian Ministry of Agriculture recommended the extension of the savings bank system, and a Ministerial Circular to the local officials of the central government, issued shortly after, supported their recommendation. A Commission which at this period was conducting an enquiry into the credit institutions of Prussia, also included in their investigation the question of savings banks. The report of the Commission published in 1851 was followed almost immediately by a Ministerial Decree urging the establishment of such banks, and from this time the communal and district savings banks increased rapidly in Prussia, their extension being promoted by the provincial and district governors. The course of development in Bavaria, Saxony, Wurtemberg, and Baden was affected by similar influences."†

* See Appendix 6 to Minutes of Evidence.

† Report on Agricultural Credit and Co-operation in Germany, p. 40.

Loans on Mortgage Security by German Savings Banks.

123. The fact that no less than £515,000,000 was invested in mortgages, in 1911, by the German Savings Banks, and that in 1910 about £170,000,000 was invested in rural mortgages alone, shows that these Banks are of great importance as mortgage credit institutions, in addition to their services as organisations for encouraging thrift. They are especially the sources of mortgage credit for small and medium farmers, in spite of some drawbacks as to terms of repayment and liability to change in the rate of interest not found in the *Landschaften* or in similar large Societies and Mortgage Banks. The State authorities have frequently urged various improvements and modifications, many of which have been carried out, so as to meet the needs of borrowers; as for instance a greater use of reducible mortgages. Some Savings Banks, in order to encourage the creation of small holdings, lend up to three-fourths or even five-sixths of the value of newly-purchased holdings within their district, subject to $\frac{1}{2}$ per cent. sinking fund payments. The usual limit, however, is between 50 and 66 per cent. of the ascertained value of the land.*

German Savings Banks and loans to small borrowers on personal security.

124. In view of the position in Ireland, where the deposits in the Savings Banks are not used reproductively in the interests of the Irish rural and industrial community, but are transferred to England for investment in Government Securities, it is instructive to note the various other beneficial ways in which the Savings Bank deposits of Germany are utilised.

In addition to the aiding of agriculture by mortgage credit and by the issue of stock and shares, the Savings Banks of Germany lend money to a limited extent on Bonds or Promissory Notes. From time to time they have been urged by the Government to help smaller borrowers by means of such loans. "In 1856 a Prussian Ministerial Decree stated that the savings banks 'could and should help the small man in cases of need by loans on bond with surety. . . . To assist such borrowers, facilities should be granted to repay in instalments or by payments into a sinking fund. . . . The adoption of this kind of business cannot be too warmly recommended, and it is requested that the provisional governments, district governors, and local authorities make it their aim to encourage this form of investment.' In 1896 the Minister of Agriculture recommended the newly-established Chambers of Agriculture to use their influence in their respective provinces to induce the savings banks to grant credit on personal security in those localities when personal credit could not be satisfied by co-operative credit societies.

"Loans to individuals on bond with or without sureties are only admissible for residents within the area served by the bank; they may also be given to local co-operative organisations. The amount of the loans to one individual on bond with sureties is generally fixed in rural or semi-rural savings banks at a maximum of £150, £200, or £300; two sureties must usually guarantee capital, interest, and any costs arising. Repayments must be made within six, or less usually, twelve months; but the fixed period may be prolonged a fixed number of times, but rarely, however, exceeding a total period of five years. Such loans are also made subject to regular repayments usually of at least 10 per cent. per annum. On personal bond, without surety, loans lower in amount are granted."†

Loans by German Savings Banks to Co-operative Societies.

125. The question of the desirability of advancing a portion of the funds of the Prussian Savings Banks for the benefit of Co-operative Societies has in recent years been the subject of considerable discussion. A ministerial Decree of 1896 prohibited lending for this purpose, but in 1899 a similar Decree authorised loans being advanced to Co-operative Societies with unlimited liability; while in 1901 the Decree now in force authorised Savings Banks to lend to Co-operative Societies with limited or unlimited liability. These advances may, however, be made only to Productive Co-operative Societies, Credit Societies being specifically excluded. The chief reason for this exclusion is presumably the unwillingness of the State to withdraw business from the Central State Co-operative Bank by encouraging the advance of funds to Credit Societies by Savings Banks. Also the State Bank is gradually becoming the Central Bank for the Savings Banks as well as for the Credit Societies. Another factor in the case is that Productive Co-operative Societies often require advances for a longer period than do Credit Societies; but these long-term loans could not be obtained at the State Central Bank or at the Central Co-operative Banks.

* *Report on Agricultural Credit and Co-operation in Germany*, pp. 44-7.

† *Ibid.*, p. 48.

In the absence of mortgage or other securities, loans are granted by the Savings Banks to unlimited liability Societies to the maximum amount of 10 per cent. of the total value of the property of the members, while Societies with limited liability are granted loans to the value of 75 per cent. of the collective liability of the members (the total liability of an individual is not to be taken as more than 10 per cent. of his property). It may be noted that this basis closely resembles that upon which advances are made by the Prussian State Co-operative Bank to Central Co-operative Banks. The usual stringent conditions are enforced in regard to the furnishing of information respecting property valuation, based on the income and supplementary land taxes of the members; the loans are made subject to annual sinking fund payments and the right to recall at six months' notice; while the Committee of any Savings Bank which has advanced money to Co-operative Societies must at least once in every three years undertake a detailed examination of the position of the assets of such Societies.*

Florence Savings Bank and Agricultural Credit.

126. An instructive illustration of the way in which Savings Banks in other countries adapt their methods to the special needs of agriculture is furnished by the statement submitted to the American Agricultural Commission last year by the Director of the Florence Savings Bank, who said:—

"The Savings Bank has introduced a novel feature of great benefit to the farmers, *i.e.*, it grants loans on mortgage security in the form of open accounts. The borrower under this system does not withdraw all the money he is entitled to by his mortgage, but is given a cheque book. The borrower can return to the Bank any part of the loan for which he has no use, and he only pays interest on that portion actually in use. This is of great benefit to the farmer. Such loans are made for agricultural and other purposes; but as the Savings Bank is particularly desirous of promoting agriculture, it gives special advantages to borrowers who can show that the money is required for farm-improvement purposes. One advantage is that the money is loaned at a lower rate of interest."†

Numerous similar examples are furnished by other Savings Banks in Italy and elsewhere.

State Savings Bank Deposits used for benefit of Agriculture in various countries.

127. Information as to the manner in which deposits in Government Savings Banks in certain foreign countries and British possessions are employed is contained in a Parliamentary Return issued in 1912.‡ From it the following facts are taken relative to the utilisation of such deposits for agricultural purposes.

In Austria advances to Agricultural Loan Societies, to Mortgage Banks, and to similar institutions, may be granted from Savings Bank funds, but only on certain stock being produced as security, and not for a longer period than three months. In Belgium a portion of the funds may be invested provisionally or permanently, according to the form and duration of loans, in advances to agriculturists, or to Agricultural Credit Associations. The loans to agriculturists are effected through Associations (*comptoirs*) which guarantee to the Savings Banks the repayment of the advances made.

In Roumania, Government Savings Bank funds may be invested in Government securities in land, in urban and rural Credit Bonds, and in shares and Agricultural Credit Banks; while in Russia the Savings Banks direct special attention to the Mortgage Bonds of the Nobility and Peasants' Land Banks, which are Government institutions under the supervision of the Minister of Finance. In several other European countries, however, such as France, Italy, Portugal, and Sweden, the Government Savings Banks are not authorised to make advances to Agricultural Credit Associations or to similar institutions, thus furnishing a striking contrast to the aid of this nature afforded by non-State Savings Banks, as in Italy.

Limited use for rural credit purposes of Savings Bank deposits in British Possessions.

128. Turning to the portion of the above Parliamentary Return which deals with the practice in British possessions, it appears that with very few exceptions the funds of Government Savings Banks cannot be used in the making of advances to Agricultural Associations, or for similar purposes. In New South Wales, however, a portion of the funds can be invested in debentures, issued by the Advance Department, which has been instituted for the purpose of lending money to farmers and settlers on the *Crédit Foncier*

* For further details, see translation of Statutes of a Prussian Savings Bank, contained in the Appendices to *Report on Agricultural Credit and Co-operation in Germany*, pp. 77-8.

† *Agricultural Co-operation and Rural Credit in Europe*. (Senate Document 214, 1913), p. 42

‡ *Parliamentary Paper*, Cd. 6300, 1912.

system of long-term loans, repayable by half-yearly instalments of interest and principle, the minimum loan being £50, and the maximum £2,000. In Victoria a certain proportion of the Savings Bank funds may be invested in mortgages of real estate, and in this way farmers are assisted. In Western Australia, advances are made for the repurchase of agricultural lands on the issue of debentures, the advances being in each case secured on the Consolidated Revenue Fund; advances can also be made upon the first mortgage of any land in Western Australia, on certain conditions. In Newfoundland a small portion of the Savings Bank funds is invested in mortgages on real estate. In India the net deposits of the Savings Banks are treated as forming part of the funds available for capital expenditure on productive works, such as railways and irrigation.

129. From the above outline showing the extent to which Savings Bank funds are used for agricultural purposes in various countries, it seems evident that in this matter Germany has evolved a method which entails a minimum tying-up of funds in comparatively unproductive securities, gives much freedom of investment, and affords a maximum of assistance to the economic progress of the country. The contrast between this beneficial system and that under which £15,000,000 of the savings of a comparatively poor country like Ireland is transferred for investment in Government Stock, Exchequer Bonds, Egyptian, Greek, and Transvaal Securities, &c., is too striking to require further emphasis on our part. "Obviously, it is only in those States which grant to Savings Banks the free use of their funds that these institutions can directly benefit agriculture. In England and in France the whole savings of the country are drawn into the Government treasury which holds them as a floating loan repayable on demand, and uses them simply for State purposes, instead of allowing them to fructify in the localities where they are produced."*

Direct advances from Irish Savings Banks' deposits to Credit Societies not recommended even if such a course were possible.

130. From the Section of our Report dealing with advances from State funds to Credit Societies, it will be seen that we do not think it desirable that such advances should be continued, save in the most exceptional circumstances, from the funds of the Department of Agriculture or of the Congested Districts Board. Past experience has shown that loans of this nature are in many cases treated as permanent grants, the State being regarded as a creditor whose resources are practically exhaustless, and to whom, therefore, punctual repayment is a matter of indifference. We do not, therefore, propose that any portion of the Irish Post Office or Trustee Savings Bank deposits should be made available for direct advances to Credit Societies.

See paras.
595-6.

Apart from other reasons against such a proposal, it would not, we are convinced, be considered feasible by the responsible authorities. A reply was given in the House of Commons on 22nd April, 1913, on behalf of the Treasury, intimating that there were serious financial objections to the proposal to finance Agricultural Credit Societies in Scotland from the funds of the Trustee Savings Banks and the Post Office Savings Banks. On the same date the following reply was given by Mr. Masterman to a question as to whether the Treasury would consider the advisability of an advance being made from Irish Post Office Savings Banks deposits for the purpose of erecting labourers cottages :—

"The proposal that direct advances should be made to Irish public bodies for the purpose of erecting labourers' cottages is contrary to the well-established principle that the investment of Savings Bank moneys should be restricted to securities charged on the Consolidated Fund, or guaranteed by that fund, and is not, therefore, one which I could adopt."

Views of Select Committee of 1902 as to investment of Savings Bank Funds.

130A. We note also that the Select Committee of the House of Commons on Savings Banks Funds (1902) in dealing with the suggestion that Savings Bank moneys might be invested in any Trustee stock, stated: "It cannot be too clearly understood that the State, as representing the taxpayers, holds the deposits in Savings Banks as a banker and not as a trustee. The taxpayers are liable to the depositors for nothing more than the amount of their deposits, and such interest as the best security in the world (namely, the credit of the taxpayers of the United Kingdom) commands. In return for this liability, they are entitled to deal with the money deposited as they choose: and it is not to their advantage that it should be invested in any less secure investments than those which rest on their own credit. But if it were transferred to less secure investments any increased income resulting from the decreased security would properly belong to the taxpayers, and not to those who had deposited their money with them. It is by no means clear, however, that the income of the Savings Banks Fund would be materially increased by such a transfer. . . . Your Committee cannot recommend the proposed extension of the area of investment. They believe it would be a dangerous precedent for the future, for they cannot think it conducive to the public benefit that the amount held by the State on behalf of

* Report on Land and Agricultural Banks (Nicholson) p. 199.

depositors in Savings Banks, already so vast as not to be without some risk to the credit of the country in the event of a grave national disaster, should be artificially increased by offering to depositors, at the expense of the taxpayers, a higher rate of interest than their deposits can earn without diminishing the security of the investments in which the money is placed." *

Desirability of attracting portion of Savings Banks' deposits to Credit Societies.

130B. We see no prospect, therefore, of the Irish Savings Bank deposits being diverted by the State to more reproductive purposes than at present. Any recommendation in favour of the direct utilization of these funds in the sphere of rural credit would also presumably be outside the limits imposed by our Terms of Reference.

We are of opinion that every effort should be made, by the establishment of a sound system of Co-operative Societies, with effective supervision and audit arrangements, to attract from the Savings Banks a portion of their deposits, especially in rural districts. Even if in each of the parishes of Ireland a sum of only £1,000 was thus made available, a total of over £1,000,000 would have been retained in this country for the financial assistance of the smaller agricultural classes in the way of loans at a reasonable rate of interest and with convenient terms for repayment. An increase of this nature in the deposits of the Credit Societies would be a much more healthy phenomenon, and more conducive to the true economic welfare of the country, than the present large accumulation of Savings Bank deposits destined for investment outside Ireland.

CONCLUSIONS.

131. Your Committee's conclusions in regard to the Post Office and Trustee Savings Banks in Ireland, in relation to rural credit, may be summarised as follows :—

(a) The very large sums now on deposit in country Post Offices in Ireland prove that there are ample funds in these localities for the purposes of agricultural credit if the confidence of the small depositor could be attracted.

(b) The earlier history of the Trustee Savings Banks emphasises the absolute necessity for strict inspection and audit arrangements in connection with any bodies dealing with the receipt and investment of moneys, especially the funds of small depositors.

(c) A grave economic injury is done to Ireland by the transfer of £15,000,000 of the savings of her population to England for investment in Government securities. Much of this amount could with advantage, we believe, be utilised in the sphere of rural credit and in other reproductive directions.

(d) The various ways in which the deposits of the Savings Banks of Germany, Italy, and other countries (including some Government Savings Banks) are made use of as sources of agricultural credit and for similar purposes afford instructive examples of the reproductive use of the people's savings.

(e) Even if such a course were found feasible by the authorities, we would not recommend the making of direct advances to Credit Societies in Ireland from Savings Bank funds, save in very exceptional cases. Our reasons for this view are fully stated in the Section of our Report dealing with State advances to Credit Societies. Nor have we thought it necessary to consider the details of any schemes for the direct assistance by the State of rural credit in Ireland from Savings Banks funds, in view of the extreme improbability that authority could be obtained to utilise in this manner even a portion of these funds. Our Terms of Reference would also presumably preclude any recommendation of this nature.

(f) As the majority of the depositors in the Trustee Savings Banks of Ireland belong to the urban rather than to the rural population (two-thirds of the total accounts being in the Dublin, Belfast and Cork Savings Banks) the possibility of utilising for rural credit purposes any of the funds now going to these Banks is small.

(g) The most immediately feasible and generally satisfactory method, in our opinion, of turning to account reproductively a part of the large amount now on deposit in Irish Post Office Savings Banks, especially in rural districts, is the organisation of a sound scheme of co-operative credit on the lines proposed in our Report.

This would lead, we believe, to a gradual and beneficial transfer of a portion of the funds of the Post Office Savings Banks to Credit Societies, and would after a time furnish the latter with sufficient capital (when taken in conjunction with Bank overdrafts) to meet all the reasonable current borrowing requirements of the medium and small agricultural classes.

* *Report of Select Committee on Savings Banks Funds* [282, 1902], p. v.

SECTION III.

MONEYLENDERS AND THE AGRICULTURAL CLASSES.

Your Committee have endeavoured to obtain reliable information as to the extent to which the agricultural classes in Ireland resort to professional moneylenders for the purpose of obtaining funds, and as to the reasons which influence them in this course of action.

RESORT OF MANY INDUSTRIOUS FARMERS TO MONEYLENDERS.

132. From the nature of such borrowing transactions and the secrecy usually sought for in regard to them, it was inevitable that considerable difficulty would be experienced by us in gathering first-hand information from persons who had themselves been customers of moneylending firms. Deserving and industrious farmers frequently resort to this injurious method of borrowing mainly from a desire to prevent their neighbours becoming aware of their financial necessities; the wished-for secrecy can naturally be more easily secured by dealing with moneylenders in a city or town some distance away than by seeking for sureties to satisfy a Joint Stock Bank in the immediate neighbourhood.

The Chief Registrar in Bankruptcy in Ireland, in giving evidence in 1898 before the Select Committee on Moneylending, stated:—

“ I have been informed by solicitors connected with some of the principal banks in Ireland, who have reason to know that persons have gone to these moneylenders, although they could get money from the banks at a much more reasonable rate; they have gone in preference to the moneylenders, because they want to conceal the fact that they are borrowing money. If a man went in and obtained the money openly at a bank, his neighbours would begin to talk about it, so he goes privately to one of these moneylenders, and especially moneylenders living at some distant place; for example, one of the bankrupts, or of the arranging debtors, before me, was a woman residing at Ballyhaunis, in the County of Mayo; she borrowed money from a Belfast moneylender.”*

133. We leave out of consideration the improvident and reckless chronic borrower who, living from hand to mouth, seizes every opportunity to get possession of ready money on any terms to meet urgent requirements, regardless of the inevitable ultimate consequences. These borrowers are on a level with many who habitually frequent “trust” auctions, and who buy an animal on credit for £10 to sell it next day for £8. Such persons easily get entangled in the snares so widely spread by the professional usurer. Even the most ample supply of credit on a sound basis and adapted to the special needs of the agricultural industry would scarcely effect much improvement in their position, for they could not be deemed credit-worthy by any well-managed Credit Society or similar lending organisation.

134. Nor are we concerned with those borrowers at the other end of the social scale who, through habits of extravagance or from other causes, find themselves financially embarrassed, and accordingly seek the aid of moneylenders. Such borrowers are, as a rule, educated persons who are fully aware of the risks they run and of the high and often exorbitant rates of interest they will pay for the accommodation afforded to them.

The greatest economic and social injury wrought by the transactions of moneylenders in Ireland is not, we believe, in the cases of reckless and spendthrift small borrowers or of persons in high social position, but of small and medium farmers and traders who, finding themselves in temporary financial difficulties and wishing to conceal their position, have recourse to one of the numerous moneylending firms whose circulars are so widely distributed through the post, and whose specious advertisements occupy so large a space in many city and provincial Irish newspapers.

ADVERTISEMENTS AND CIRCULARS OF MONEYLENDERS.

135. One of the strongest proofs which we have received during our Inquiry as to the large business which must be done in this country by moneylenders is the extent

* See Minutes of Evidence, *Report of the Select Committee on Moneylending*, 1898, (W. H. S. Monck), A. 3430.

Rev. J. F. Shields,
15360.

J. O'Regan, 9149.

to which their advertisements appear in the press. One witness handed in a copy of a Belfast paper, in two columns of which no less than fourteen advertisements of separate moneylending firms appeared, thirteen of them having addresses in Belfast, and one in Dublin. Another witness handed to us a Limerick paper containing on one page six prominent large-type advertisements of moneylenders doing business in Limerick, Wexford, Tralee and Clonmel. It is needless to say that these advertisers, North and South, were at one in promising to the borrower absolute secrecy, in requiring only note-of-hand personal security, in repudiating the idea of fees or fines being accepted, and in arranging terms of repayment solely with a view to suit the borrower's convenience. In short (to quote from an interesting article *The Usurer in Ireland*, written many years ago by our colleague, Rev. T. A. Finlay),* the moneylender is "as far as the newspaper advertisement reveals him, a benefactor of his kind, seeking to employ the wealth with which Heaven has blessed him, in kindly service of his fellow-man."

The same outstanding feature of moneylender's advertisements was referred to in a recent leading article in the *Times* :—

"With many varieties in detail, the circulars agree in one thing: the moneylender's chief object is to help his customers. He happens to have money for which he has no use. He knows the needs of others less fortunate. He would fain minister to them. Most of the circulars express indifference as to the amount to be advanced; it may be £500 or £50,000; it is all the same to the lender; he will give just what borrowers need or what they do him the "favour" of asking. He is not particular about security, or about quick repayment. He is thinking chiefly of the interest and convenience of the borrower. He charges no fee and asks for no bill of sale or deposit of deeds or guarantee by a friend. A promissory note or a post-dated cheque is enough." †

Information as to Rate of Interest rarely furnished by Moneylenders.

136. With very few exceptions the advertisements which we have seen give no clue to the actual rate of interest which is charged. If any information is vouchsafed, it is usually confined to the terms of repayment of the principal of the loan, such as "Loan of £5, repayable weekly, 2s., or monthly, 8s. "; this, it will be seen, furnishes no guidance whatever as to the cost of the loan. When information as to the rate of interest (usually the apparently modest rate of 5 per cent.) is supplied, the important words "per annum" are missing, the actual charge made often amounting to 5 per cent. per month, or even per week! The charging of a special fee for inquiry expenses, &c., which is often not returnable whether a loan be advanced or not, is another familiar feature of these transactions.

The extensive press advertising thus done by moneylenders is attended by the very serious danger that newspapers which obtain a large income from such advertisements may be tempted to suppress reports of Law Court and other proceedings which might tend to damage the interests of these profitable advertisers. Even during the course of our sittings we have had, on certain occasions, practical proof that this danger is not by any means an imaginary one. It is obvious that if a moneylending office can afford to continue inserting expensive advertisements in various papers circulating mainly among the rural classes, such a course must prove remunerative; and the proof is still stronger when it is found that numerous competing firms, of the same type and operating in the same area, continue to spend money freely in making known their functions. Evidently they find a steady demand for their services, or at any rate see the certainty of such a demand being created.

Avoidance of the publicity of the Law Courts both by moneylenders and borrowers.

137. The cases which from time to time reach the Law Courts for enforcement of release from claims are, we need hardly say, small in number when contrasted with the mass of moneylending business transacted. Again to quote from the above-mentioned *New Ireland Review* article :—"It is for the interests of the usurer to avoid the publicity of the courts as far as possible, to have as little as possible of the light of judicial investigation cast upon his proceedings. Nevertheless, he must sometimes come into court. At times he must apply to the law for help to despoil his victim, and in making this application he runs the risk of exposure. He will often escape, no doubt, so often indeed that he is likely to grow overbold in the end. His debtors are usually broken and spiritless men—there is nothing which more effectually crushes out manliness of spirit than the grasp of the usurer—and they rarely have enough courage left them to face him in the open court. When he sues them the suit will be undefended, and a decree will be given for the amount claimed, without comment from the Court.

**New Ireland Review*, July, 1894, p. 306.

†*Times*, 15th July, 1912.

"Occasionally, however, things do not run their course so smoothly. Some debtor has enough vigour of character left him to defend himself at law, and then the court and the public are enlightened as to the nature of the lending transactions in which the beneficent owners of certain money-offices engage. The court and the public are duly shocked at the revelation; the presiding judge is severe upon the iniquitous ways of the usurer, and goes as far as the law allows him to save the struggling victim from his clutches. But the indignation of the Bench and the public passes away in time, the strictures of the judge are forgotten, and the usurer plies his calling without hindrance till a new scandal rouses again a momentary attention."*

As pointed out by the Select Committee on Moneylending, "moneylenders often take into consideration, as part of their security for payment for unjust claims, the dread of the consequences to the borrower of any publicity of the transactions with them, into which his misfortunes have led him. . . . Borrowers will often submit to almost any degree of oppression in order to hide the consequences of their folly or misfortunes."†

Your Committee need not, however, emphasise the well-known evils of the moneylending system, associated with various familiar surnames, Jew and Gentile, and with more general titles, such as "City and County Loan Co."; "Advance Co."; "Discount Co."; "Private Loan Co.," &c., one firm at times trading under several distinct aliases or secretly co-operating with other firms so as to pass on the unfortunate victim from one to the other by the cruel device of leading him to think that the beneficent and timely assistance of the second moneylender—whose circular has arrived by post apparently so opportunely—will enable him fully to discharge his existing obligations and get upon his feet again. As Chairman of the Select Committee on Moneylending, which issued its Report in 1898, you are fully conversant with the many ramifications of the system, and the untold misery brought upon innocent sufferers.

Moneylending Acts of 1900 and 1911.

138. The following are the main provisions of the Act of 1900 (63 & 64 Vic., c. 51), which was passed as a direct result of the Report of the Committee on Moneylending. A Court is empowered (when satisfied that the interest, fines, &c., on a loan made by a moneylender are excessive, and that the transaction is "harsh and unconscionable," or is otherwise such that a court of equity would give relief) to re-open the transaction and to relieve the person sued from the payment of any sum above that adjudged reasonable. A moneylender is compelled to register as a moneylender under his own or usual trade name, and in no other name, and with the address, or all the addresses if more than one, at which he carries on business; and to carry on business in no other name and at no other address. The expression "moneylender" is defined as including "every person whose business is that of moneylending, or who advertises or announces himself or holds himself out in any way as carrying on that business"; but certain persons and bodies, such as pawnbrokers, *bona-fide* banking and insurance businesses, &c., are excluded from the definition.

The amending Act of 1911 (1 & 2 Geo. 5, c. 38), made certain provisions safeguarding the rights of *bona-fide* holders for value, in cases when notice had not been given to them of any defect in the agreement with, or security taken by the moneylender, due to the operation of the Act of 1900. It also prohibited a moneylender from registering under any name including the word "bank," or under any name implying that he carries on banking business.

Comparative failure of Legislation.

139. These Acts, from the operation of which much was anticipated, appear to have done little to lessen the evils aimed at. Some of the causes which have led to this failure are touched upon in the chapter on moneylenders in *Peoples' Co-operative Banks*,‡ written by Mr. H. C. Devine, Secretary of the Urban Co-operative Banks Association.

"I do not think I am exaggerating when I say that no Act has more signally failed to accomplish its object than this one. So far as I am aware, it has done little or nothing to lessen the evils against which it was directed. Professional moneylenders continue to flourish under what have been ironically described as its 'protecting' clauses, hardly any prosecutions have been instituted for the offences mentioned therein (for the simple reason that they may be committed with impunity and their penalties evaded), their victims rarely get redress from the Courts on account of the ineffective drafting of the Act, and they themselves continue to flood the country with their specious circulars and deceptive advertisements, and to wring extortionate inquiry fees, interest, and fines from their victims as heretofore.

**New Ireland Review*, July, 1894, pp. 307-8.

†*Report of Select Committee on Moneylending* [260-1898], p. vii.

‡*Peoples' Co-operative Banks*, pp. 98, 99.

"To the lay mind it would appear comparatively easy for a Court to decide when the interest on a loan was excessive and a transaction harsh and unconscionable, but our judges have generally been unable to define the conduct of moneylenders as such (at all events in a legal sense), unless defendants could demonstrate the possession or anticipation of considerable means, which of course is out of the power of the generality of poor persons who resort to moneylenders.

"What has been done, however, in occasional instances, when unconscionable interest has been charged, has been to make orders for the amounts to be paid by extremely small monthly instalments, but this could have been done under the old law."

A recent writer states:—"The Moneylenders Act has been on its trial for thirteen years, and has not fulfilled the expectations of its champions. It is true . . . that compulsory registration has been of great advantage in unmasking and identifying the worst transgressors. The amending Act of 1911 has also been useful in prohibiting moneylenders from being registered as bankers. But many of the old abuses remain. . . . Despite the Act, interest at the rate of anything up to 1,000 per cent. is still exacted and paid. . . . So long as the decision of the Judge remains a matter of speculation, the moneylender, by nature a gambler, will very gladly take the risk; and here again, as in the signing of the original contract, the dice are loaded against the unhappy borrower." *

Many other similar expressions of view as to the extremely disappointing results of legislation upon the subject could be quoted did space permit.

Proposed further legislation in regard to Moneylenders.

140. It is clear that public opinion is not at all satisfied with the present position of affairs. This was evidenced, for instance, by the widespread and cordial approval given to most of the provisions of the Bill introduced by Lord Newton in the House of Lords in July, 1913,† the aim of which is to compel a moneylending company to describe itself as such; to insist on a moneylender giving his own name in addition to the assumed trade name he may have adopted; and to prohibit the sending of moneylenders' circulars to any person save in response to a written request received from that person within the preceding seven days.

We notice that a Bill to amend the Acts of 1900 and 1911 was introduced into the House of Commons in February, 1914. The main provisions of this Bill are:—A moneylender shall register under a name which comprises his own name and his usual trade name (if any), and in no other name, and with all the addresses at which he carries on his business. If the moneylender be a body corporate, the words "money-lending company" shall be part of its corporate name. A moneylender "shall in no case charge or receive more than fifteen per cent. per annum upon any loan granted by him or on his behalf." A fine not exceeding £100 for a first offence; and imprisonment for not less than three months, with a similar fine, on a second or subsequent conviction, are the proposed penalties. Heavier fines are to be imposed upon a body corporate. The bill also prohibits the sending of written documents inviting any person to borrow money, except in response to a written request received within the preceding seven days. In the case of a married man, no bill of sale or other security on the contents of the borrower's home is to be taken by a moneylender without the consent of the borrower's wife.

It will be noted that the main difference between this Bill and that introduced by Lord Newton is the proposal to fix a maximum rate of interest on loans. Such attempt would, in our opinion, prove impracticable. This, we note, was also the view of the Moneylending Committee of 1898.

Your Committee desire to record their opinion that legislation on the general lines proposed would be of considerable benefit to Ireland. From the evidence received at our Inquiry it is clear that the operations of moneylenders in this country are still a source of much real hardship, and any legislation tending effectively to curb their activities and to restrain their circularising propaganda would be extremely useful.‡ But we are not sanguine as to their operations among the rural classes being materially diminished, save by the gradual setting up of a competitive system of small agricultural credit on terms suitable to the needs of the small borrower, and as readily accessible as the Private Loan Bank or the Trust Auction.

*Article on "Moneylenders." *Times*, 9th July, 1913.

† See *Parliamentary Debates*, 30th June, 1913, 689-697, and *Moneylenders Bill* ordered to be printed 23rd June, 1913 (No. 77). The Bill was read a third time, and sent to the Commons, on 4th March, 1914.

‡ In speaking on this subject, the Earl of Meath, during the debate on the Moneylenders Bill in the House of Lords, said: "I am pestered almost day by day with these circulars. What I do is this. I send Mr. A's letter to Mr. B, and vice-versa, because I think it is sad that the circulars should be wasted—and I do not pay the postage! But I continue to receive them all the same." (*Parliamentary Debates, House of Lords*, 30th June, 1913,

Evidence of Chief Registrar in Bankruptcy as to increase of moneylending in Ireland.

141. The Chief Registrar in Bankruptcy for Ireland in giving evidence in 1898 before the Select Committee on Moneylending stated that very serious abuses existed in consequence of the moneylending system in Ireland, which had greatly increased since his appointment in 1881 :

Q. "Have moneylenders increased in Ireland since then?—A. Both moneylenders and moneylending transactions. I should say we have perhaps six or seven of them now for one that we had at the time of my appointment.

Q. "Who are these moneylenders? Are they of any particular nationality?—A. Well, a large number of them are Russian Jews who came over, I fancy, on account of the persecution (as it was called), of the Jews* in Russia; but, of course, we have them of all nationalities; and a good many of the people who lend to the Irish people that come before me, are London moneylenders.

Q. "With offices established in Dublin?—A. Some of them have offices there, and some of them have not; some of the loans are dealt with at their London offices.

Q. "At all events, you have noticed a great increase both of moneylenders and moneylending transactions in Ireland since your appointment in 1881?—A. Yes; since my appointment in 1881, and, in some instances, at all events, at higher rates.

Q. "Higher rates have prevailed generally?—A. Yes."

The following is a further quotation from this interesting evidence:—

Q. "Do I gather from your evidence that you are satisfied that there is an immense number of usurious transactions in Ireland?—A. A very large amount.

Q. "And that it is increasing?—A. And that it is increasing, and increasing largely.

Q. "And increasing amongst farmers?—A. I think so. It has gone down to the farmers and shopkeepers.

Q. "The result of the Irish Land Acts is, is it not, that the farmer has an interest that he can dispose of or charge?—A. Yes.

Q. "Have you found that the moneylenders, in the numerous cases that have come before you, always tried to get a mortgage on that interest?—A. What they generally do, I think, is not to get a mortgage on that interest, but to get judgment against the man, and then register the judgment as a mortgage.

Q. "Register the judgment and make the man bankrupt?—A. Then they may make the man bankrupt.

Q. "Then they apply to the court for a charge on the estate with 4 per cent. interest?—A. Or else, of course, they sometimes instead of making the man bankrupt, proceed to sell the farm in the County Court.

Q. "Any way, the result of getting into these usurers' hands is that sooner or later the tenant is deprived of his farm?—A. The tenant is deprived of it unless he can free himself from these usurious charges."†

See paras. 825-9.

Considerable weight must be attached to this opinion of one with such an intimate official knowledge of the facts. It will be noted that the period referred to (1881-1898), was one in which important Irish land legislation was passed, and coming into operation.

LARGE INCREASE IN NUMBER OF MONEYLENDERS REGISTERED IN IRELAND.

142. We have obtained by inspection of the official records of the registration of moneylenders in Ireland the following figures showing the number of moneylenders who have been registered since the passing of the Act of 1900.

Date.	Number of money- lenders registered.	Date.	Number of money- lenders registered.
1st Nov., 1900 to 31st Dec., 1900	122	Year 1907	47
Year 1901	47	Year 1908	44
Year 1902	19	Year 1909	77 ‡
Year 1903	69 ‡	Year 1910	78
Year 1904	40	Year 1911	79
Year 1905	39	Year 1912	118 ‡
Year 1906	67 ‡	Year 1913	89

* The Census returns show that the number of Jews in Ireland was, in the year 1871, 285; in 1881, 472; in 1891, 1,135; in 1901, 3,898; and in 1911, 5,148—an increase in 40 years of 1,706 per cent.

† See Minutes of Evidence, Select Committee on Moneylending (1898). (W. H. S. Monck) A. 3394-8, 3522-30.

‡ A moneylender's licence must be renewed every three years from date of registration; hence each third year from 1900 (the date of registration of the firms in existence at the time the Act of that year came into operation) sees a larger number of registrations than other years.

Since the year 1900, 642 separate registrations in all have been effected, of which 241 are now, we understand, effective, while the remainder have lapsed. It should be remembered that the opening of an additional office, or any change in the moneylender's name or place of business, entails a fresh registration. Even when allowance has been made for these considerations, the fact remains that in Ireland, in 1913, there were about 120 more registered moneylenders than when the Act of 1900 was passed, in spite of 401 registrations having lapsed during the same period.

Your Committee also have reason to believe that moneylenders carry on business in this country without complying with the law as to registration. In addition, when English moneylenders transact business with Irish clients from their Head Offices, it is not usual for them to register in Ireland.

DISTRIBUTION OF THE 274 REGISTERED MONEYLENDING OFFICES IN IRELAND.

143. The following Return compiled from the official records shows the distribution of registered moneylending offices in Ireland in the month of August, 1913 :—

Province and County.	Number of Registered Money-lenders' Offices.	Province and County.	Number of Registered Money-lenders' Offices.
<i>Ulster.</i>		<i>Leinster.</i>	
Antrim	5	Carlow	—
(Belfast City)	56	Dublin	—
Armagh	9	(Dublin City)	118
Cavan	1	Kildare	2
Donegal	8	Kilkenny	1
Down	3	King's	—
Fermanagh	1	Longford	—
Londonderry	6	Louth	—
Monaghan	—	Meath	—
Tyrone	5	Queen's	2
	94	Westmeath	1
		Wexford	2
		Wicklow	—
			126
<i>Munster.</i>		<i>Connaught.</i>	
Clare	1	Galway	1
Cork	4	Leitrim	—
(Cork City)	26	Mayo	2
Kerry	4	Roscommon	—
Limerick	6	Sligo	3
Tipperary	2		
Waterford	5		
	48		6

The total Number of Registered Moneylenders' Offices in August, 1913, was 274.*

We have ascertained the occupations or description of the above registered moneylenders, as far as such information is available in the official records. Fifty-one return themselves as "shopkeepers" (45 of whom are in the cities of Dublin, Belfast, and Cork), 23 are described as "financiers" or "accountants," 30 are "married women," 8 "widows," 8 "pawnbrokers," 6 "auctioneers," 9 "agents" or "travellers," 3 "farmers," 2 "labourers," while other occupations include "clerks," "carpenter," "art master," "upholsterer," "sculptor," "housekeeper," "knight," &c. Moneylenders trading under such names as "City and County Loan Co." number 57 of the total.

A Peasant Proprietary can offer better security to moneylenders than tenants.

144. The large increase in moneylending transactions in Ireland in recent years may have been attributable in some degree to the fact referred to by the Registrar in Bankruptcy, *i.e.*, that the farmers were acquiring a greater negotiable interest in their land.

*As compared with 231 Moneylenders registered on same date, *i.e.*, one registration in many cases covers two or more separate offices.

and were therefore becoming more promising customers of moneylenders, in view of the better security which they were in a position to offer for advances. The history of other countries would certainly seem to support the contention that peasant proprietors are peculiarly liable to the temptation to burden themselves with debt secured upon their land. But there is another side to the matter; and in Ireland, in some districts at any rate, the new tenant purchasers appear to have shown extreme circumspection in borrowing upon the security of their holdings. See para. 141.

Report on financial condition of Irish tenant-purchasers in 1903.

144A. In the Report drawn up in 1903 by our colleague, Mr. Commissioner Bailey, on the condition of Tenant Purchasers under the Land Acts*, he stated: "A noteworthy proof of the improved financial circumstances of the Tenant Purchasers is the great care and evident hesitation with which they accept a loan. They are more cautious than of old in availing themselves of their credit. The insolvent man will borrow money where he can and when he can. The man who has a property that can be made liable, and who knows that he must repay, acts with much greater care and circumspection. . . . On an estate in Kilkenny we found that the Tenant Purchasers are adverse to borrowing money for any purpose. They consequently limit their expenditure on improvements to what they can supply themselves. They are afraid to run risks that they do not clearly see their way to meet. . . . Contrary to what might be expected, and indeed to the experience of other countries, the Purchase system has up to the present been unfruitful to the 'Gombeens' man, who in many districts has not alone failed to extend his business, but has actually disappeared altogether. This we found to be the case on an estate in Sligo, where, before sale, a moneylender did a considerable business, who has now disappeared, leaving no successor."

On the other hand, in referring to an estate in Ulster where the solvency of the purchasers had improved to a remarkable extent, Mr. Bailey added: "On this estate our Inspector found exceptions to the general rule of improvement. Some of the outlying holders were in bad circumstances, and did not treat their land well. These were described by a local clergyman as worse off since the sale of the estate; 'they were,' he said, 'lazier, less inclined to work, spend more in whiskey than before, and the district is overrun with Jews and moneylenders.'" These were, however, admittedly, very exceptional cases.

PRESENT EXTENT OF RESORT TO MONEYLENDERS BY THE AGRICULTURAL CLASSES.

145. No safe generalisation can, we believe, be arrived at as to the precise influence of land purchase in Ireland upon the relations of farmers with moneylenders. We shall have occasion to deal with indebtedness in a wider form when treating of mortgage credit; but may say here that in our opinion the present time—when as a result of the Land Acts of 1903 and 1909 the soil of Ireland is passing on a vast scale into the hands of peasant proprietors—calls for special precautions against the wiles of moneylenders, whether Jew or Gentile, who will assuredly not be slow to avail themselves of the favourable opportunity thus afforded for opening negotiations with fresh customers in the rural districts; and this danger may increase instead of diminishing, as the standard of living of the new tenant purchasers gradually rises. See paras. 766-780.

In our inquiries as to the extent to which Irish farmers in need of funds at present resort to moneylenders, we have received very varying information. In some districts we have been told of a considerable increase in the practice, in others of a decrease, while reliable first-hand information in regard to individual cases has been, as we have said, extremely difficult to obtain. Both borrower and moneylender evince, for easily understood reasons, no very keen desire to make public the history of their mutual dealings. Para. 137.

Evidence from Co. Waterford as to increase in moneylenders' operations.

146. One of the witnesses who was of the opinion that moneylending was greatly on the increase amongst the farming class was Rev. John M'Cann, P.P. (nominated by the County Waterford Committee of Agriculture), who said:— 18399-401.

"In the first place I wish to speak about moneylenders. They have increased tenfold for the last 15 years, and they send circulars to every farmer in the parish. I was surprised one day to learn that there was not a single farmer in the parish who had not received a circular couched in the most seductive language. One of the farmers came to me and said he had correspondence with moneylenders in Dublin. He did not tell me the whole story, but it came out later on. He had sent £3 or £4 to the moneylender to

*See House of Commons Return, *Land Purchase Acts*, 1903 (No. 92), pp. 10, 11.

cover expenses. The moneylender sent an additional schedule of queries of the most extraordinary kind, and making the thing more difficult. The man came to me and asked me to write to the moneylender, and I did so, but got no answer. I met a policeman and said, 'This is a case that should be investigated. You should write to Dublin to make enquiries.' He said, 'There is no use unless this man would give evidence.' The man said, 'I would rather lose the money than give my name.' So he lost his money rather than reveal his financial weakness. These moneylenders are sending round their circulars, and they put up posters in the highways, inviting people to borrow from them. They are a pest to the country.

Q. "And the Joint Stock Banks that would deal fairly with the farmers don't solicit their trade?—A. No. I must tell you a peculiarity amongst these people. Some of our Joint Stock Banks are in a very public position in our towns, and that class of people would not like to be seen going into them. They would rather go into a by-street where they would not be seen. They are not able to calculate the rate of interest. They don't know what the terms are. When they are paying back they find to their cost what the terms are, but they will not make known the dishonesty. I saw it recently stated that legal advice is given in England. Such an adviser in a parish would be very useful to give advice gratis.

Q. "Their local clergymen could give them any advice they require?—A. Perhaps he would be the very last man they would consult. I had occasion many years ago to elicit from them how far they were in the books of these moneylenders. It was when I intimated to them that it was possible that I would relieve them of their obligations to some extent, that they came round to me one after another—some fifteen or twenty of them. Before that they would not come to me at all. They were all in the hands of the moneylenders—not the present class of moneylenders, but those that were there previous to the Acts of Parliament being passed."

Agricultural Labourers and Moneylenders.

147. An intelligent agricultural labourer who gave evidence at our sittings in Cork stated that the "place was alive with 'Loan Banks.'"

Q. "Do you know how they charge?—A. I do, indeed, unfortunately.

Q. "What is the rate?—A. Twelve per cent. on short loans, and 1d. a week fine.

Q. "What is the length?—A. They will give £1 for twenty weeks, and then will charge 1s. 2d. interest the first day, and there is 1d. for a book. For every week that you fail to pay the shilling you are fined 1d. for each £1 or portion of £1 charged.

Q. "Have they regular offices in the city?—A. Yes; they call themselves 'Loan Banks.' Of course, the poor man who goes to borrow in March is paying before he has got anything out of the land.

Q. "And he goes in March to get a loan for seed for his plot?—A. Yes."

Q. "Supposing the man got money in the early part of the year, would he be able to pay it back later in the year?—A. Yes; in August, because his potatoes would be available. He should not be asked to start paying back the advance before he had the produce available."

Para. 143.

From the Table already given, it will be seen that there are almost thirty moneylenders' offices in Cork city. Undoubtedly widespread borrowing of this sort must be carried on by the poorer classes. The fact that many agricultural labourers resort to usurers for the funds to purchase seed for their plots in the spring is one of the numerous proofs your Committee have received that this class stands in need of some system of credit suited to their special requirements, for they, more than any other section of the rural community, are outside the scope of the ordinary banking institutions.

We are well aware that the thriftless and the idle form a considerable proportion of the customers of these city "loan offices," and that not every labourer's half-acre plot left untillied and carrying no crop save luxuriant weeds is in that condition solely through lack of capital. Character is as important a factor in this as in other spheres of human effort. But the fact is undeniable that in all parts of Ireland many deserving small rural borrowers, including agricultural labourers, through the absence of such a source of credit as a Co-operative Credit Society, find themselves practically forced to utilise the freely-proffered services of moneylenders, at exorbitant rates of interest, and with inconvenient periods for repayment; or to resort to Loan Fund Societies, which are in many respects, as we have shown elsewhere, eminently unsuited for purposes of agricultural credit.

See paras. 503-503d.

See paras. 270-1.

J. A. Williams,
13883-9.

148. Another case of a labourer resorting to a moneylender was brought under our notice in the North of Ireland. The Secretary of the Londonderry Loan Fund Society in speaking of the operations of moneylenders said:—

"I understand that an initial deposit is required before the loan is considered, and if the application is refused the deposit is forfeited. One farmer had to pay 30s. for inquiry fees. I advanced him money myself; I found he had paid 30s. inquiry fees, and that the moneylenders refused him the loan.

Q. "They charged him 30s. for making inquiries?—A. Yes; for car hire, and expenses.

Q. "I believe these moneylenders have offices in Derry?—A. Yes.

Q. "Do they advertise in the papers?—A. Yes.

Q. "Do you know the character of the man who paid the 30s.?—A. Yes; he is a very decent man.

Q. "Was he a farmer?—A. He was a labourer and he purchased a holding. He thought from the advertisements in the paper, that he would have no trouble in getting money. He was a labourer to a clergyman that I know.

Q. "The fact that he was a working man, and raised himself up to a position to purchase a farm, was all to his credit?—A. Yes. He paid me within a few months the money I advanced him."

Evidence as to Decrease in number of Moneylenders in some Districts.

149. While several witnesses, in addition to those already quoted, stated that the operations of moneylenders amongst farmers in Ireland had largely increased in recent years in their districts, the information given us in regard to other districts was in the opposite sense. The following are a few examples :—

A farmer residing near Ennis in speaking of the credit requirements of small agriculturists, said :—

“ They cannot get it (money) unless a man who has money in the bank goes security for them. You must have a depositor in the bank as security. There is no other way of getting money. There were loan banks in Ennis years ago, and there were no securities required. If you did not repay in three months you would have to renew the bill. T. White, 7366-8, 7378-82.

Q. “ Are these banks still in existence ?—A. No, sir, they are ‘ wed ’ out. There were three or four of them in my time.

Q. “ So there is no opportunity for a small man of getting advances now ?—A. No.”

Q. “ Are there any men about the country who lend money to the people ?—A. No ; not now, but there were some time ago, and in a great part of the country too.

Q. “ They used to lend money ?—A. Yes ; at a big percentage.

Q. “ How is it that they have all disappeared ?—A. So far as I can see, the men who were lending the money died away, and no one of the family took up the business afterwards. There were three or four men lending money in the town of Ennis to my own knowledge, but there are none now.

Q. “ Perhaps they did not find it profitable ?—A. Yes ; and they found it was troublesome.

Q. “ They found some difficulty in realising their debts ?—A. Yes ; but the men who were lending kept on at the business until they died.”

Another farmer living near Westport informed us that there used to be private money-lenders in that town, but that he knew of none there now.

M. Grimes,
11090-1.

Some instances have been furnished to us where the establishment of successful Credit Societies has had in Ireland, as in Continental countries, the effect of diminishing the operations of the local moneylenders. For example, the Secretary of the Ballivor Credit Society, County Meath, said :—

“ I know borrowers who, before the Society was established, had to pay 20 per cent. There were local moneylenders before our Society was started. They would give a loan of £1 for 1s. a month, and that would be 60 per cent. per annum.”

P. C.
O'Donoghue,
17077.

Rev. Dr. McLaughlin, of Armagh, explained that the ordinary banks were of little use to farmers in his neighbourhood, owing to the short terms for loans, the security required, and the reluctance of farmers to make their needs known to their neighbours ; and that farmers therefore had recourse to private loan banks :

11307.

Q. “ Are there many of these in your neighbourhood ?—A. There were two and there is one now, but it is not doing as much as it did. The trade has considerably reduced, but this loan bank has had immense influence in the country. It has had hundreds of borrowers.”

Specimens of Promissory Notes used by Moneylenders ; interest charged, 60 and 84 per cent.

150. As it is impossible to give too much publicity to the real nature of the terms charged by many moneylending firms, we think it well to insert here some extracts from specific evidence received by us in regard to transactions of comparatively recent date, of which the witnesses were able to speak from personal knowledge. The Very Rev. John Delany, P.P., V.F., Co. Carlow, took the trouble to bring to our Inquiry, and hand in, the originals of the documents* referred to in the following extract :—

Q. “ Have you any experience of the evils arising from borrowing from money-lenders ?—A. I am going to refer only to what came under my own actual notice. I have before my mind three cases within the past few years connected with moneylenders whose names are in the papers every day. In the first case the rate of interest is lowest, and it is put in such a way that the small farmers could never find out what they would have to pay. I am assured by the persons named in the promissory note that the amount of the loan was £20. Here is the actual note (*produced*). ‘ We jointly and severally promise to pay the sum of six pounds ten shillings on Friday, on the 3rd November, , and a like sum of six pounds ten shillings on each and every succeeding quarter, until the whole sum of twenty-six pounds be fully paid ; and in case default shall be made in any or other of such instalments, the whole of the sum of twenty-six pounds, or so much thereof as shall be then remaining unpaid, shall become due and payable.’ The interest in this case amounted to 58 $\frac{2}{3}$ per cent. The borrowers got £20 for three months. At the end of the first three months, £6 10s. was paid back, and thus they had £13 10s ; at the end of six months another £6 10s. was repaid ; at the end of nine months they had 10s. remaining to work on, and at the end of twelve months the whole thing was paid back. Taking it as per cent. per annum, the interest worked out at 58 $\frac{2}{3}$ per cent. In the next case the loan was £20—£28 to be paid back as above ; so that the rate of interest in this case was even higher.†

16976-77.

*See reproduction in full of these documents in Appendix 9 to the Minutes of Evidence.

† The rate of interest was 84 per cent. per annum.

"I saw also, where the borrower was told not to send a cheque of any kind, but to get bank-notes, and forward them in a registered envelope, which the moneylender enclosed. Here is the case of a loan of £75. From the note you cannot ascertain what the amount was which was got from the moneylender in the beginning. I have the promissory notes here.

Q. "Were the borrowers local farmers?—A. Yes."

Moneylenders should be compelled to state on promissory notes the actual rate charged.

151. The rates of interest per annum charged in the above cases (*i.e.*, 58 and 84 per cent.), although high are, of course, often far exceeded in moneylending transactions.

We believe that a most useful legislative provision would be one rendering it compulsory upon a moneylender to state on each promissory note the exact rate of interest which is being charged. Also, in default of the payment of an instalment by the borrower, the moneylender should, we think, be entitled to recover only the amount actually due at the time, with interest—not the total outstanding balance of the loan, the latter being a condition frequently inserted on promissory notes.

Particulars of treatment of a Widow in County Clare by Moneylenders.

152. The following case well illustrates the utterly relentless character of the usurers' operations, the co-operation which takes place between apparently different money-lending firms (probably the same firm at two addresses), and the possibility of collusion between usurers and a certain type of commercial concern to entrap the unwary. We therefore reproduce in full the account of this transaction, for which we are indebted to Mr. James O'Regan, who was nominated by the Clare County Council as a witness. He said:—

"Loan Banks and Discount Banks run by Jews and such land sharks are the cause of much unhappiness in rural districts. They usually operate from the towns. They advertise in the local papers to an enormous extent, and by adopting enticing advertisements, they allure into the meshes of their nets the most innocent and deserving of our struggling farmers. In a Limerick paper circulating in County Clare, quite one-fourth of its front page is taken up constantly with advertisements of the banks.

(*The witness handed in a copy of a Limerick paper containing a number of advertisements of Loan and Discount Banks.*)

Q. "Are these Banks kept by Jews?—A. I think you have an occasional Gentile also!

Q. "Are some of the people running the banks Jews?—A. Yes.

Q. "So that would be a new feature coming into the country?—A. You may be quite sure that two of the banks mentioned in the advertisements I have handed in are kept by Jews. They all promise to grant loans from £5 upwards to all classes of people on their own personal security, whilst one lays special emphasis on the fact that the interest charged is moderate.

"I know of a case myself where this gentleman charged a poor widow at the rate of over 70 per cent. per annum for the loan of £8 10s. A short history of how she got into their toils and how she fared may interest the Committee, as I can vouch for the accuracy of the story in all its details. She first, in answer to an advertisement, agreed to purchase a lady's bicycle for her daughter on the instalment system. The cash price of such a bicycle should be about £5, but she agreed to pay on the instalment system £12 10s. by instalments of 10s. per month.

Q. "Do you say that she agreed to pay in instalments the sum of £12 10s. for a bicycle which was worth only £5—A. Yes. It was bought from an English merchant whom I would not be surprised to find was in collusion with the moneylender. The poor woman paid 8 or 10 instalments, and on making default of one payment she received a process for the remainder."

The witness went on to say:—

"About the same time she received a circular from one of these moneylenders offering her money at a moderate interest, and from the entrance of that specious document into her homestead she was doomed. She applied for a loan of £10 which was granted, £1 being deducted for interest for three months, so that she was really charged over 44 per cent. per annum for the £9 she received. She paid this exorbitant interest for a few quarters, only to be pressed for payment when she failed for the first time to pay the interest on the loan. Again she had a circular from a loan office with a different address, and in her trouble she applied again for a loan to pay off her pressing creditor. This time she was charged at a rate slightly over 70 per cent. for a loan of £8 10s. This brought her little relief; she soon sank further into their debt until she owed, in principal and interest, £22. The loan office pressed for payment; she was unable to meet them, and all at once they sent her a writ for the £22. Judgment by default was marked, and before she had time to realise her position, her stock, valued for £49, was seized by the sheriff, and sold in Ennis to the Jewman for £28, the full amount of the debt and costs.

"It was only after the sale this unfortunate woman came to me with her story, and a request that I should try and help her. I came on to Ennis, found that the stock had been removed to Limerick, where I followed them. I found them in an auctioneer's paddocks awaiting sale for the Jewman. With the assistance of the auctioneer, who helped me in every way, I brought back the stock, and on re-sale realised sufficient from the wreckage to pay a half-year's rent to the landlord, a year's rates, and to purchase a cow and two calves. Thus you will see for an overcharge on a bicycle, a poor, innocent woman got into the hands of sharks, who almost brought her to complete penury. From the experience of the widow whose case I quote, these moneylenders evidently act in collusion when once they get a poor person into their toils."

Charge of 104 per cent. for loan of £20.

153. Mr. O'Regan also furnished us with the following interesting particulars of the result of the application of a farmer for an advance from a Loan Company:—

"I got a farmer friend of mine to write to some of these Loan Bank people asking for £20 to buy a horse. This man would be safe for £200. This morning I got a letter from the 'City and County Loan

Co., Limited.' These people advertise largely. It would appear to a farmer that there were two or three different Loan Offices, but they seem to be one and the same. This is the letter :—

" DEAR SIR,

" We are in receipt of yours *re* advance of £20 for which we are obliged. We make cash advances on approved personal security and in cases where personal security is insufficient, another approved signature is required, on terms £10 per £50 on the transactions, smaller or larger sums proportionately—that is, bill of £20 you receive £16 cash, or bill of £25, £20 cash, repayable by six equal monthly instalments, or during that period as may be arranged. We enclose you form which you will please fill in all particulars on, and return with your last rent receipt, when the matter will have our attention.

Yours truly,

(Signed) CITY AND COUNTY LOAN COMPANY, LTD.

" For a loan of £20 this man would require to sign a bill for £25 and repay the money at six equal monthly instalments. I think the interest would be well over 100 per cent. because the farmer would only have the £20 for a month, £15 16s. 8d. for a month, and so on down, so that at the end of six months he would have paid over 100 per cent."*

We received much other illuminating evidence as to the exorbitant terms charged to farmers and others by moneylenders in Ireland, the grave injury caused by the system, and the comparative ineffectiveness of existing legislation in checking the evil.

CONCLUSIONS.

154. Your Committee's conclusions on the subject of moneylending in Ireland, as it affects the rural classes, may be summarised as follows :—

(a) Apart from thriftless and chronic borrowers, many industrious farmers resort to moneylenders on account of the secrecy and easy accessibility of this source of credit. Paras. 132-4.

(b) The extensive advertising and circularising carried on by moneylenders in rural districts in Ireland is a proof that they find such a course profitable. Paras. 135-6.

(c) The operation of the Moneylending Acts of 1900 and 1911 appears to have done little or nothing to diminish the evils of the moneylending system in Ireland. Both usurers and borrowers avoid, when possible, the publicity of the law courts. Paras. 137-9, 145-153.

(d) The number of moneylending offices in Ireland in December, 1913, was 241, an increase of about 120 over the number registered after the passing of the Act of 1900; while in addition, about 400 registrations have been allowed to lapse in the same period. Paras. 142-3.

(e) Your Committee strongly approve of the proposals made in Lord Newton's Bill, which, if carried into law and duly enforced in the Courts, would probably be of much benefit. Provisions compelling a moneylender to state on each promissory note the exact rate of interest charged, and entitling him to recover on a borrower's default in payment of an instalment only the amount actually due, with interest, would also, we believe, prove extremely advantageous. We agree with the view of the Select Committee of 1898 that any attempt to fix a statutory limitation of the rate of interest would probably prove impracticable. Paras. 140, 151.

(f) There is urgent need to safeguard as far as possible the new peasant proprietary against the evils of moneylending. More drastic legislation and stricter enforcement of existing laws could accomplish much; but more effective than any legislation against moneylenders (so far as regards rural credit) would be the establishment of a sound system of co-operative credit, attracting the confidence of industrious small farmers in need of capital, who at present often find the moneylender or trust auction the most convenient agency through which to borrow. Paras. 144-5.

*The exact rate of interest charged in this case was 104 per cent. per annum.

SECTION IV.

"TRUST" OR "CREDIT" AUCTIONS.

Among the worst methods of obtaining funds resorted to by Irish farmers who for one reason or another find themselves in need of ready money are certain forms of the "trust" or "credit" auction. The most injurious form seems to be that in which cattle are dealt with, but standing crops and other products of a farm are also frequently the basis of the transaction. The professional moneylender and the "trust" auction may, indeed, be said to share between them the bad eminence of being the most hurtful modes of obtaining funds adopted by the agriculturists of this country. Once a farmer has formed the habit of making regular use of these readily available lending agencies, he appears, in the majority of cases, to experience the extremest difficulty in extricating himself from the morass of growing indebtedness in which he finds himself almost hopelessly engulfed. From the evidence received by us, it is clear that the cause of many an emigration from Ireland of a once fairly prosperous family, leaving behind a derelict farm, may be traced back to the financial difficulties brought on by frequent "raising the wind" at trust auctions. The system has been well described as one which "makes the poor man poorer."

FICTITIOUS SALES AT TRUST AUCTIONS.

155. The following is the most ingenious and at the same time by far the most harmful type of trust auction. A farmer in need, say, of £10 ready cash, with little prospect of obtaining the same from a Bank or a friendly neighbour, brings in one of his cows to the auction. The animal is put up for sale, and is bought by a friend (often by a son or brother) of the seller. In many cases friends of the latter, by their bidding, run the price up to a much higher figure than the animal is worth. A bill at three, four, or six months, signed by one or two sureties, is given by the purchaser to the auctioneer, who usually discounts it in a Joint Stock Bank, and pays cash, less the discount, to the seller, charging also the usual 5 per cent. auction fees. The seller of the cow then brings home the money, the obtaining of which was his sole object in going to the auction, while the nominal purchaser drives the cow back to the field or byre from which she came. The proceeds of the transaction are in some cases divided between the parties. One witness told us of a case where a farmer raised £10 on a cow by thus selling her to his son at an auction. Next day the same cow was sold by the son and bought by the father, so that £20 was raised on the one animal in two days! But other animals have, we are informed, surpassed this record by bringing in £70 or £80 to the owner in a short space of time, through peregrinations from one auction to another.

156. It is obvious that this disastrous though decidedly ingenious practice can have only one result for those habitually engaging in it. When the auctioneer's bill becomes due in three or six months, it has to be met, although in the meantime the farmer has had no means of making the proceeds of the transaction productive, even in those cases where he may endeavour to do so. Sometimes the cash needed to meet the bill when due is obtained by going through the same performance again at another auction with a dearer animal than that used on the first occasion. But such a proceeding only means deferring for yet another short period the inevitable day of reckoning, while adding at the same time to the burden of debt. Nor is the farmer the only sufferer by this system of what has been well termed "organised fraud." The auctioneer who, knowingly or unknowingly, engages in risky transactions of this sort, is sooner or later bound to become himself involved in serious difficulties, and, as one witness put it, to find on his books all the bad debts in the district. The name of the auctioneer must, of course, be placed on the bill before the latter is discounted for him by the Bank; nor is it always possible for the auctioneer to be aware that the supposed sale is in reality a purely fictitious one. No auctioneer of standing would, we believe, knowingly consent to become a partner in such risky transactions.

Evidence as to ruinous results of the practice.

157. An auctioneer in County Tyrone who gave evidence at our Inquiry stated:—

"As an auctioneer with nine years' experience, I wish to say that auctioneers don't care for loan business, or bogus business. They would prefer to do genuine business, because bogus business gives them an enormous amount of trouble, and means their frequent appearance at the Sessions Court. It is ruinous to the farmers, and very severe on the auctioneers. In my opinion the cattle sales are the mo

dangerous of all, for this reason—you never know whether you are making a genuine sale or not; the transaction takes place too quickly. A man comes in and tells you he has sold cattle, on a three or four months' bill, to a neighbour. Possibly, when the bill becomes due, you will find out that the transaction was a bogus one, and not until then. You have not time really to inquire into the matter. In land sales it is entirely different—letting land on the eleven months' system. You generally know the people who have taken the land, and you generally, at least, take a week before you advance the money, and you are able, in the meantime, to find out whether it is a genuine sale—whether these people are taking the land, or whether the transaction is only for the purpose of raising money. I have advertised an auction, and given posters to the farmers to post up around the district. The auctioneer thinks it is a genuine sale, and he finds that the posters are not put up at all.

Q. “This credit business involves the auctioneer advancing capital?—A. Yes; and it is risky.

Q. “I suppose, in such cases, it would be necessary to go to the joint stock bank to obtain some of the capital?—A. Yes.

Q. “What interest would such capital be obtained for at the bank?—A. From six to six-and-a-half per cent. for the first three months, and for the renewals they charge more.

Q. “Therefore, they discourage renewals by charging higher interest?—A. Yes; but in an eleven months bill it is necessary to renew. The farmer lets his land and wants the money, and at the end of the term he has to renew the bill.

Q. “That must be an expensive process?—A. It works out for him at seven-and-a-half per cent. to draw the money, and if he does a bogus business, he has to pay the auctioneer five per cent. in addition, that is twelve-and-a-half per cent. for the money for the year.”

158. Mr. James O'Donnell, a farmer in County Donegal, said that this type of auction 13342-4.
was still prevalent in certain parts of that county.

“A craze seemed to come over the people when they got into debt, and they seemed never to get out of it. At these trust auctions the beasts are sold for the purpose of getting the ready money, and in many cases the vendor has both the beasts that are sold and also their price, and brings them home with him the same evening; between loss of time, interest on bill, and the way the money is spent, they get deeper into debt, and then we find moonlight flittings, which are leaving many a grass widow behind.

Q. “Are there many moonlight flittings of that kind?—A. A good deal, occasionally. They have to fly when they get into difficulties.

Q. “Due, in your opinion, largely to the trust sales?—A. Yes.”

But the cases in which the sale is a fictitious one, arranged by collusion between the nominal seller and buyer, form, we believe, only a small proportion of the trust auction sales which take place in Ireland, the interesting ingenuity involved in this particular type of transaction having probably led to its receiving more attention than its frequency would warrant, viewed as a factor in the agricultural credit of the country.

TRUST AUCTIONS IN WHICH THE SALE IS A REAL AND NOT A FICTITIOUS TRANSACTION.

159. The great injury wrought by the trust auction system is not confined to bogus sales of the above-described kind. A much more usual type of transaction is that described in the following extract from the evidence of Mr. W. V. Coote, J.P., a member of the Tyrone County Council:— 12647-50A, 12654.

“The average borrower will not get money from the ordinary joint stock bank without having the security either of a man who has cash on deposit in the bank, or a man who is a trader in the bank. It is not very convenient to get these people, and the borrower is thrown into the hands of the auctioneer who charges him a very high rate of interest.

Q. “What would the rate of interest be?—A. It varies. In my district the auctioneer charges a shilling in the pound for four months, and that would mean fifteen per cent.

Q. “Is that in the form of discount or interest?—A. Discount.

Q. “Which would make it much more?—A. Yes; in some districts the auctioneers do not charge as much as that, but in the district I know they do. Another way the man tries to raise money is to attend some auction sales, where he buys a beast, say, for £10; he gets two neighbours to secure him.

Q. “These neighbours need not be of the same solvency as the joint stock bank would require?—A. No; perhaps they are ‘pulling’ together. The man who gets the animal sells it in the local fair at a loss of fully ten per cent. the next day, and he has got to pay five per cent. to the auctioneer on the sale, and he loses ten per cent. on the value of the beast, and he probably renews the bill for two periods, and, in all, the transaction will cost him about twenty-five per cent. of the principal in some cases.

Q. “Is this system in existence in Tyrone?—A. In Clogher Valley it is. I think it is demoralising. It is destroying the *morale* of the small farmer. Probably he will give a mortgage on his farm when he cannot meet his liabilities.”

160. In an auction sale of this nature the animal really changes owners, but is subsequently sold at a fair by the purchaser at a lower price than that given for it at the auction. The keen competition amongst needy farmers for animals at trust auctions naturally raises the prices above those which prevail in the fairs for the same class of animal. A purchaser who has only to give a four or six months' bill, and is extremely anxious by hook or crook to get possession of an animal for the purpose of selling it as soon as possible for cash, is not likely to hesitate to offer prices which would not be offered in the ordinary fairs, where transactions are, as a rule, upon a cash basis. Cattle dealers, we understand,

at times bring animals to the auctions, knowing that higher prices will prevail and that, though the purchasers may be of a much less reliable type than those found at fairs, the auctioneer will also be responsible as security. The prices at auctions are frequently run up by the bidding of "puffers" or "sweeteners" whose attendance is arranged for by the dealers. We have received a good deal of evidence to show that inferior animals—which are practically unsaleable at fairs, save at very low figures, owing to some defect or other—are often bought at the auctions, where would-be purchasers on credit are numerous and not too particular in regard to the quality of the animal bought, and where no warranty from the seller is expected. There is thus a concurrence of various factors which render trust auctions, even when no bogus sale takes place, in every respect one of the most ruinous sources of credit for the agricultural classes.

Extensive Moneylending by some Auctioneers under guise of auctions.

T. M. Larney,
12815-22.

161. One of the most detailed descriptions of the evils of the trust auction system was furnished to us by a witness nominated by the County Cavan Committee of Agriculture. We think it desirable to reproduce this account in full as illustrative of the extensive money-lending business done in rural districts by various firms of auctioneers at high rates of interest, under the guise of auction transactions. After describing the difficulty experienced by small farmers in providing suitable sureties for a loan from the Joint Stock Banks, the witness said that this class had to fall back upon some other source of obtaining money:

Q. "What would that source be?—A. The auction credit system—the greatest curse in our entire country. I can give you a practical illustration of what I say. I have been asked by a man to go security for him. He bought a beast for £10. There is a very extensive business carried on in the town of Granard. The dealing men bring the cattle in and sell them there by auction. They get a far better price on this four months' credit system than they would if they got cash on the spot. The beast is bought too dearly. In this case I went in with the man. The price of the animal was £10. He had to pay fifteen shillings there and then, and five per cent. auctioneer's fees. At the end of four months he had not the beast for sale, and he had to renew his bill. He was told that the usual rule in such cases was no renewal of the bill except a new sale, as a matter of form, was gone through, so he had to pay fifteen shillings more. That system is carried on extensively in the town referred to, and some other towns, such as Arva, and these people are making a very big business of it.

Q. "Do you say that man had to pay 30s. commission?—A. Yes; inside of eight months.

Q. "What would happen if he had to renew a second time?—A. Every four months it would cost him fifteen shillings.

Q. "How long would that go on?—A. As long as the borrowers paid the interest. There is an old saying—'a drowning man will grasp at a razor' and small farmers go to the trust auctions when they have no other means of getting money. I knew two men go into the office of a firm of auctioneers, and state they had a sale of an animal just completed. They stated the price, and signed a four months' bill for the amount with five per cent. auction fees added, and, of course, bank interest, although the auctioneer never saw the beast, and there was neither any beast nor sale in that case.

Q. "That is simple moneylending?—A. Yes; at a rate of interest that the law should interfere with. The auctioneer makes sure that the securities are a good enough mark for the money.

Q. "Have you known where the auctioneers have had to take proceedings?—A. There are very few cases as regards this firm of auctioneers I have referred to, because they know all the people over the district, and they are cautious that one at least of the three men is a mark for the money. I have known persons they refused.

Q. "Do you know where these auctioneers get the money they advance?—A. I think they have a good deal of capital themselves, and they have a bank overdraft.

Q. "They probably pass these bills into the bank?—A. Yes."

Area of Trust Auction system in Ireland.

162. The area over which the system extends seems to be mainly confined to the northern portion of the country. It has been practised in the past in its most aggravated form in the Counties of Donegal, Tyrone, Fermanagh, Londonderry, and other Ulster Counties. To County Donegal apparently belongs the doubtful honour of being the birth-place of the device. Witnesses from Ireland who gave evidence before the Select Committee on Moneylending in 1898 referred to the system as having then recently sprung up in that county (with head quarters at Ballyshannon), and to the fact that the Most Rev. Dr. O'Donnell, Lord Bishop of Raphoe, had strongly condemned it in his Lenten Pastoral of that year as a species of gambling.* We regret to find that the practice has since pene-

* The following is an extract from a press Report of the Pastoral referred to:—

"The thought of interests on the temporal side suggests a warning with reference to a system of trust auctions that in recent years has been introduced into several parts of this diocese. Enough to say that whether it be land for cropping or live stock or farm produce that is sold in this way, the system develops all the worst features of reckless and ruinous borrowing for the buyer, and may involve loss of a serious kind for the seller also. We are in great need of Peoples' Banks to advance loans at small interest to industrious farmers and for industrial purposes. But nothing should induce our farmers to get entangled in the net of these trust auctions."—(*Freeman's Journal*, 21st February, 1898).

trated southwards ; but how far it is thus spreading in districts where it was formerly unknown it is difficult to estimate.*

At our sittings in Ennis, a member of the Clare County Council said, in speaking of trust auctions :—

“ We have very little of this class of credit existing in County Clare, though I believe it prevails to a great extent in the City and County of Limerick, and as County Clare borders the City of Limerick, I have no doubt many Clare farmers patronise such auctions. I know some in my own district who attend these auctions regularly, where they get the stock they purchase on credit. As far as I can ascertain they pay 5 or 6 per cent. interest to the auctioneer in addition to the 5 per cent. commission on the purchase money for the accommodation of getting the stock they buy on credit. This hits them hard, as the competition at these auctions for stock is so great because of the impecunious bidders that the price paid is often 5 or perhaps 10 per cent. more than the market value of the stock purchased, so that in the aggregate the farmer pays anything from 10 to 20 per cent. for his cattle more than if he bought them in the open market with money in his pocket to pay for them.” J. O'Regan, 9146.

The trust auctions have in many districts become so established a custom that they are held at regular and short intervals. A witness from County Louth furnished us with detailed information on this point in respect to his neighbourhood : T. M. Ardle, 10687, 10691-3.

“ In the district there is practically a monthly sale of cattle. The persons enter the cattle for sale and have to pay a fee. At these auctions people who are in need of money buy the cattle. The ready cash man has only to pay $2\frac{1}{2}$ per cent. if he buys, whereas the man who buys on trust has to pay 15 per cent.—6d. in the £ for cash, and 1s. in the £ for a four months' bill, so, therefore, a man who has not cash has to pay $12\frac{1}{2}$ per cent. more than the man who has. In addition to that, as the man wants money, he takes the beast to the nearest fair. He buys him for £10 and sells him for £9.

Q. “ Are there any industrious men going to the credit auctions ?—A. Yes, large numbers ; but they don't always buy when they go. They watch an opportunity for a cheap beast. It is generally a dealer that sells the cattle, and he has two or three persons to raise the price ; and so a man with cash in his pocket is not going to buy under these circumstances. But the man in need of money must buy.

Q. “ Do these auctioneers incur many bad debts ?—A. I just learnt in the train to-day that the auctioneer in our district is a bankrupt. He had very bad debts. There is another sale at which the auctioneers give a whole year's credit. He gets his beast. A horse is sold for £25, and then the buyer has only to pay down 25s., with the auctioneer's fees. He signed a bill for £25, to be paid in twelve months afterwards. That gave him the use of the horse for twelve months for the 25s. He kept the horse for one month, and then sold him for £21 ; so in reality he is paying £4 for the use of £21. At the trust auctions there are generally two or three people in need of money, and then they go together—one bails the other. The auctioneer is not always very sharp in looking into their private means, and even if he tried he might not be able to know as well as the people in the parish.

Q. “ Are the auctions numerous ?—A. Every month, and there is an auction every year for cattle alone. Of course there are other auctioneers that sell public property in the ordinary way, and as a rule, they want the cash, unless they know the purchaser is a good mark. In that case they give him a few months' credit—a bill in the joint stock bank that he can renew.”

Trust Auction System in Scotland.

163. The following statement by a Scottish agricultural authority in regard to the injury done by the Credit Auction system to the farmers of that country is given by Mr. E. A. Pratt in a book issued by him some years ago :—“ There is another form of agricultural credit which is on the increase in Scotland. We have now a great many powerful auction companies, and it would be a revelation if someone could get a look at their books and see how thoroughly they have got many of the Scottish farmers in their grip. The practice followed is this : The farmer (say) wants to buy some sheep or cattle to feed up for the market, but he cannot pay cash for them. He attends a sale and buys the stock, for which the auctioneer accepts his bill for three or four months. The auctioneer also has a lien on the stock, the purchaser being obliged to take the animals back to the same auction mart for re-sale when he is ready to dispose of them again. In the result the auctioneer has a firm hold over the farmer, and secures several profits, though the most lucrative part of his business is the loaning of the purchase money.” †

Evidence that Trust Auctions are resorted to by many Industrious Farmers.

164. Although trust auctions are so often the resort of pecuniarily embarrassed farmers who find it difficult or impossible to get money at a Joint Stock Bank or other lending institution, your Committee have had evidence showing that industrious and deserving farmers are also frequently found at such auctions. In our opinion one of the most convincing proofs that existing credit facilities do not fully meet the special requirements of the smaller farmers of Ireland is the fact that so many honest and credit-worthy men find it necessary to fall back upon moneylenders and trust auctions as a source of capital

*See Minutes of Evidence of Select Committee on Moneylending, 1898 (260) (*Right Hon. Horace Plunkett*) A. 1963-68 ; (*Geo. W. Russell*) A. 2155-84.

† *Small Holders : What they Must Do to Succeed*, p. 176 (P. S. King and Son.)

15614-21.

in their times of difficulty. The evidence of Mr. J. Hill Dickson, J.P., nominated as a witness by the County Down Committee of Agriculture, is of special relevance upon this important aspect of the question :

Q. "Is there a large proportion of men in your experience who resort to these trust auctions, who have not got to resort to that expedient through their own fault ?—A. I think that eighty per cent. of the men who go to buy at an auction could pay cash.

Q. "What proportion of them are industrious, honest men that a bank would be safe in trusting ? A. Seventy-five per cent. would be safe.

Q. "So that seventy-five per cent. of those who resort to trust auctions are men that either a bank or a credit Society would be quite safe in trusting ?—A. I think so.

Q. "The remaining twenty-five per cent. belong to the type of people who probably were on the down grade anyhow ?—A. Yes.

Q. "But three-fourths are all right, and would be saved by a term of credit, whether through the joint stock banks or otherwise ?—A. I would say that twelve-and-a-half per cent. of the twenty-five per cent. should not be trusted by anyone.

Q. "Twelve-and-a-half per cent. are hopeless ?—A. Yes.

Q. "But the other twelve-and-a-half per cent. are not hopeless ?—A. No ; they might be assisted.

Q. "So that the trust auctions are dealing with a class of men in the main who are just those who ought to be facilitated by some means or another ?—A. Yes."

In this witness's opinion, therefore, no less than three-fourths of those who resort to trust auctions in his district are industrious men to whom credit could be advanced with safety by a Joint Stock Bank or Credit Society, while only one-eighth are not worthy of credit. The convenience with which buyers at an action can find neighbours on the spot who are willing to act as security for them in backing a bill has doubtless an influence in attracting farmers to such auctions ; for the Banks are, as we have shown elsewhere, unable to accept as sureties for a loan any but persons who are depositors or who are otherwise known to the Bank manager. This class of security is naturally harder to obtain than that which would be accepted at a trust auction.

See para. 83.

Question of Increase or otherwise in Trust Auction System.

165. A question upon which your Committee find it difficult to give a definite opinion is as to whether the trust auction system, taking the country as a whole, is increasing or declining. About 70 witnesses dealt with these auctions in their evidence—a sufficient proof in itself that the practice is one which is fairly wide-spread and generally known. Many of these witnesses expressed the view that it was on the increase, while others inclined to the contrary opinion. Doubtless in some districts where trust auctions have flourished for a considerable time, many of the most habitual frequenters have become ruined, and have had to sell out, while the better-class farmer has learned to avoid the use of a method which has proved so injurious to his fellows ; in such districts the system has diminished simply through lack of suitable material. For instance, the Secretary of the Antrim Agricultural Association when asked if many credit auctions were now held in the Ballymena district, replied :

"Not so many as there were some time ago.

Q. "They are diminishing in number ?—A. Yes. The small men have ruined themselves by that sort of trade.

Q. "What has become of them ?—A. They have left the country.

Q. "Their ruin has been brought about by the trust auction system ?—A. Yes.

Q. "And that is why it is going down ?—A. Yes ; I knew quite a number of them that left the country, and I attribute their downfall to nothing else."

166. Another factor which in process of time must tend to lessen the evil of the trust auction is the steady spread of Joint Stock Bank Branches, and the increased facilities for obtaining from them loans of comparatively small amount, by farmers who can furnish satisfactory security. The establishment of a successful Credit Society is also a most potent influence telling against the trust auction system. Rev. J. R. Maguire, C.C., of County Fermanagh, on being asked if the practice existed in his parish, replied :

"It is dying out. It did prevail to a great extent, and, of course, was very detrimental to the farmer. The credit auction system prevails to some extent in the sale of hay in the springtime, but that does no harm. It is cattle credit sales that are the dangerous things, because the farmer does not really know what is the price of the animal. I have known that in some cases credit auctions have ruined several farmers in the district. But latterly the sale of cattle at these auctions is going out a good deal, and when the people can get £3 or £4 in the agricultural credit society they won't go to an auction, and I think our credit society has killed credit auctions to some extent. When the farmers get a little more comfortable, and know that they can get loans on easy terms, the credit auctions will soon be a thing of the past with us."

F. Kyle, 14790-4.

14491.

167. Rev. Canon W. H. Scott, nominated by the County Tyrone Committee of Agriculture, was of opinion that the system is not as bad as it used to be, but advised that some restraint should be put on these auctions. He said :— 14777-80.

"I don't think I know of any case of a man, who once entered into the system of attending these trust auctions, that ever failed to come to ruin.

Q. "And the system lives only because the farmers are not able to obtain money in any other way ?—
A. Yes.

Q. "Do you think anyone makes out of the auctions ?—A. I suppose the auctioneers do.

Q. "Would a respectable auctioneer engage in business of that kind ?—A. The auctioneers about my neighbourhood do. I think it is not so bad as it used to be, but I think it is more necessary to put a restraint on these auctions than on the public-houses."

THE TRUST AUCTION OF LAND AND CROPS.

168. Some of the evidence which we have received tends to show that the auction system when it deals with land and crops, and not cattle, is at times beneficial, and is indeed in many districts the established and recognised method of ordinary business. As described to us, this type of auction is "a system by which men sell meadows, and the custom is to discount bills; but in that case the purchaser of the meadows pays the auctioneer's commission, while the vendor has to bear the discount. The bills are almost invariably paid to the auctioneer as soon as the hay is carted away. . . . The majority of these men are able to pay. They are men who want the hay for the feeding of their cattle; and the bills become due about November or after the October fairs, and they have sold cattle that are ripe for selling, and are able to pay for the hay. The man who takes hay in that way is really progressing because he is developing his business." In such cases the farmer secures the hay for the price of the grass; the transaction is clearly often of much advantage to both buyer and seller and free from the defects inherent in other forms of credit auction.

T. W. Delany,
12426-7.

169. On the other hand, witnesses pointed out that in some forms the method is decidedly injurious to the land itself. The following is an extract from the evidence of a witness nominated by the County Carlow Committee of Agriculture:—

J. O'Toole,
18363-7.

Q. "Is the trust auction system on the increase ?—A. It is.

Q. "Why is that ?—A. The principal reason, I believe, is that those who are in the habit of letting their land have found it the easiest way of getting money. The land goes to a high price in some cases, according to the quality of it. They have no capital to change their system. These are from twenty to thirty acre farms.

Q. "Setting the land is the easiest way of getting accommodation at the time ?—A. Yes; and the others who take the land are anxious to get it for the purpose of the straw.

Q. "It is rather a new thing this trust auction ?—A. It is on for years, and, if anything, it is increasing.

Q. "Are cattle ever offered for sale at these trust auctions ?—A. No; only the land, and that is the worst, because when it is auctioned year after year it deteriorates."

This evidence is corroborated by that of the Secretary of the above-mentioned County Committee of Agriculture, who in speaking of the credit auction said :

P. J. Griffin,
18125-9.

"I think that is a most pernicious system. The vendor, say, in November sets his land for a corn crop to be sown in spring. He practically mortgages that part of the holding for the year. The vendor takes out a bill, and he pays $6\frac{1}{2}$ to $7\frac{1}{2}$ per cent. That bill is for six months. The rate of interest is crushing. There is $7\frac{1}{2}$ per cent. charged for six months, and the purchaser pays about $7\frac{1}{2}$ per cent. when he takes up the Bill.

Q. "Is that a new method lately introduced ?—A. Yes; about fifteen years ago.

Q. "Is it widely spread ?—It is spreading very much. The result of that is that there is no industry in that place where the crop is going away, and the land deteriorates, and can hardly be brought back into condition.

Q. "In the course of time the farmer won't be able to auction off his land ?—A. No; and the result is that it is sold. It is a most pernicious system. It is a great loss to the State and to the district.

Q. "Why is the system increasing ?—A. I think a good deal of it is for want of industry. It starts with that, no doubt. These farmers are not properly educated in the methods of farming, and they fail. It is generally the worst of farmers who let their land. Those men let their land, so that they can live easier."

There seems no room for doubt but that in many instances the form of credit auction which is concerned with the letting of land or crops is as injurious to the interests of the farmers as that associated with the sale of cattle, unless due precautions are taken.

CONCLUSIONS.

170. Your Committee's conclusions in regard to the "trust" or "credit" auction system in Ireland may be summarised as follows :—

Paras. 155-160.

(a) In certain forms, notably when the transaction is a purely fictitious one, or when an animal is bought merely to be subsequently sold at a lower price, the trust auction system is one of the most ruinous methods of obtaining ready money resorted to by the Irish farmer.

Paras. 161.

(b) The practice is also a risky one for the auctioneers habitually engaging in it, and is often moneylending carried on under the guise of ordinary auction transactions. Auctioneers of standing do not favour the system.

Paras. 162, 165-7.

(c) The system had its origin in Co. Donegal and other Northern counties, but has spread southwards. In some districts it has decreased or disappeared, but in others it appears to be a regular and increasing practice.

Para. 164.

(d) Although largely made use of by impecunious farmers whose only object is to obtain ready money at any cost, these auctions are frequently resorted to by industrious and credit-worthy farmers who find it difficult otherwise to obtain capital for their immediate needs.

Paras. 168-9.

(e) In some forms the credit auction of crops or of land is the established and recognised custom, and is often advantageous to both parties ; but even in transactions of this type serious injury is at times done to the land through deterioration.

(f) The most efficacious method of preventing the evils of the trust auction system is, we believe, the establishment of a well-organised system of co-operative rural credit, which will render it easy for industrious and deserving small farmers to obtain, on suitable terms, funds for current expenditure ; and which will, at the same time, gradually educate them as to the disastrous results of such sources of credit as trust auctions.

No legislative attempt to abolish the "trust" auction system would, in our opinion, be effective, seeing that the law could be so easily evaded by collusion.

SECTION V.

CREDIT ADVANCED TO FARMERS BY SHOPKEEPERS.

A large part is played in the rural economy of many districts in Ireland by the credit advanced to farmers, especially of the smaller class, by shopkeepers and merchants. This practice has come into prominence in the past more particularly in connection with the admitted evils of "gombeenism."

"GOMBEENISM."

171. Generally speaking, a "gombeen" man may be described as a local money-lender, often a shopkeeper, who by advancing money at high interest has so got the necessitous farmers into his grasp as to cripple them with a growing burden of indebtedness and leave them almost helpless victims in his hands. In the cases where "gombeenism" is combined with shopkeeping the debtors are often unable to transfer their custom to another shop, through fear that such a step would be followed by immediate prosecution for the amounts due by them.

Steady decline of "Gombeenism" in Ireland in recent Years.

172. We have no doubt but that in some districts, particularly in the poorer portions of the West, much hardship has in past years been caused to the smaller farmers by the operations of the "gombeener" who flourished as a separate institution; nor is the evil even now entirely non-existent in remote places, as for instance where there may be only one shopkeeper within a radius of many miles. But the evidence received by us proves conclusively that "gombeenism," in the usually accepted sense of the term, has practically disappeared from Ireland, owing mainly to the competition of the increasing number of Joint Stock Banks, to the opening up of competing shops in most of the country towns and villages and even at the cross-roads, and in some instances to the starting of Co-operative Credit Societies and Agricultural Societies. We have quoted elsewhere the opinion expressed in the Report of 1903 upon the Condition of Irish Tenant-purchasers that "the purchase system has up to the present been unfruitful to the 'gombeen' man, who in many districts has not alone failed to extend his business, but has actually disappeared altogether."* We observe that in 1897 statements to the same effect were made to the Select Committee of the House of Commons on Moneylending by various Irish witnesses, including Mr. George Russell, who then acted as organiser of Credit Societies in the West of Ireland. The following is an extract from the evidence of the latter:—

See para. 114A.

Q. "Have you any knowledge as to gombeening in these districts?—A. Yes.

Q. "Has it declined?—A. It has declined considerably.

Q. "That is the professional gombeen man?—A. The professional gombeen men are disappearing over the country; public opinion and the presence of the joint stock banks and other causes have made them to disappear. . . .

Q. "You distinctly think that gombeening is declining?—A. Distinctly; it is almost vanishing."†

In the period of seventeen years that has since elapsed the number of gombeeners must have still further declined. The Most Rev. Dr. Kelly, Lord Bishop of Ross, informed us that "in parts of Cork the gombeen man did a flourishing trade, so long as the Joint Stock Banks kept on the old tradition, but when they began to facilitate the people, the latter went from the gombeen man." As far as the evidence at our Inquiry goes—and

3050.

* House of Commons Return, 92 (1903), p. 11.

† Report of Select Committee on Moneylending (260) 1898, A. 2139-43.

See paras. 141-3.

See paras. 155-170.

we endeavoured to elicit information on the subject from all classes of witnesses, especially those in an independent position—the typical moneylending “gombeen” shopkeeper of times past is now virtually a non-existent type; although we have no doubt isolated specimens of the class still carry on their operations to the detriment of the poorer farmers when local circumstances favour their doing so. As against this decline in regular gombeenism, however, must be placed the increase in the number of registered moneylenders in Ireland, operating mainly from offices in the cities and large towns, but doing an extensive business amongst the scattered agricultural population; while the “trust” auction is a too frequent source of obtaining credit.

CREDIT GIVEN TO FARMERS BY SHOPKEEPERS.

173. There are also signs that some of the drawbacks of the “gombeen” system are to be found at times in another form in the ‘long credit’ granted to the farming class by some shopkeepers, often for considerable periods and usually in respect of purchases of such agricultural requirements as seeds, manures, feeding-stuffs and household articles. This indebtedness of agriculturists to shopkeepers is not a phenomenon of recent origin in Ireland, nor is it, needless to say, peculiar to this country. It is, indeed, to a moderate extent, an absolute necessity. But the injurious results of over-indebtedness cannot be ignored in any comprehensive consideration of the problem of Irish rural credit. It is not a subject upon which any sweeping generalisations, equally applicable to all parts of the country, can be made. The evidence at our Inquiry showed this indebtedness to be a diminishing one in some districts, while in other places it was said to be distinct on the increase. With the improving material condition of the new tenant-purchasers, and their greater sense of the value of economic and personal independence, over-indebtedness to the shopkeepers should steadily diminish and with it the undesirable restricting of the customer in his choice of the source from which to obtain his agricultural and household requirements.

Opinion of Royal Commission on Congestion regarding Shop Indebtedness in the West.

174. At all times this shop indebtedness has been naturally found in a more aggravated form in the poorer portions of the country. The Royal Commission on Congestion stated in 1908 that “the enormous indebtedness of the small landholder in the West is unfortunately beyond doubt; the creditors are mostly shopkeepers, partly for shop goods, and partly for money lent. There can be no question as to the evil results of the system. Even the ordinary and perhaps inevitable indebtedness of many of the small men of the West is often enormously increased by a system somewhat analogous to ‘truck’ under which the shopkeeper purchases much of the produce of his debtor (butter, eggs, knitted goods, sometimes cattle), often at a reduced price, which is not paid for in cash, but merely entered ‘on account’ of an existing debt. It is not suggested that a large proportion of shopkeepers in the congested districts abuse their opportunities, but the temptation to make improper use of the power thus obtained, especially where there is a monopoly, is often irresistible, and even the credit system honestly carried out is liable to abuse. On the other hand, it must be recognised that a small farmer, who unlike an artisan receives his income at comparatively irregular intervals, must have credit for shop goods, and also that careful borrowing for reproductive purposes is just as important in agriculture as in any other business.”*

Opinion of Congested Districts Board regarding “Long Credit” in Shops.

175. The Congested Districts Board in their Report for the year ended March, 1908, expressed the view that “the ‘gombeen’ money-lender does not now occupy as commanding a position in backward districts as formerly, but it is to be feared that with a change of rôle, the same part is still played in the tragedy of congestion. The long credit and tied trade of the shop dealings are only a variant on the older system. Whatever the form of demoralising credit, it naturally exercises greater sway in backward districts and amongst people whose poverty tempts them to borrow even under the most disastrous conditions, than in places where the joint stock banks are more easily accessible

**Final Report of Royal Commission on Congestion.* [Cd. 4097—1907] para. 255.

as lending agencies. . . . In no other way can the load of debt under which so many of the congests live be removed without injury to their character than by a gradual substitution of economic credit on the co-operative plan for the thriftless and ruinous credit system.”*

Risks of Excessive Shop Credit.

176. In districts where no Credit Society is available to furnish loans to a farmer in the spring-time for the purchase of seeds, manures, &c., or where no Co-operative Agricultural Society has been formed, it is almost inevitable that he should obtain his agricultural requisites on credit at a local shop, not paying for them until the autumn or winter, when his expenditure has become reproductive. Moderate credit of this type is made use of in all industrial spheres, and, within due limits, is, as we have said, entirely unobjectionable. But there are various circumstances which render the practice at times exceptionally liable to serious abuse in the case of a small farmer. In the poorer districts the standard of education is frequently low and the farmer's knowledge of accounts and book-keeping, even of a simple nature, slight, while complicated questions relating to rates of interest charged are usually beyond him. Fortunately the rising generation are receiving instruction in these matters of which their fathers had not the advantage, although several complaints were made to us by witnesses as to the comparative neglect of such subjects as arithmetic and book-keeping in some rural schools.

See para. 183.

It is obvious that a small farmer who finds it necessary to run up long bills at local shops is at times placed at a great disadvantage, being almost entirely at the mercy of any shopkeeper who may desire to utilise his customer's indifference or ignorance for his own pecuniary benefit, both in respect of interest on overdue accounts and in regard to actual prices charged, sometimes for inferior articles. Shopkeepers who would act thus are, we believe, in a small minority; this view was emphasised by witnesses not only at our Inquiry but at the sittings of the Select Committee on Moneylending and of the Royal Commission on Congestion. But, nevertheless, the liability of agriculturists to injury and serious financial loss through excessive shop-indebtedness is a real danger† against which adequate safeguards are, in our opinion, required. We give a few typical extracts from the evidence received upon this subject.

Evidence of heavy shop debts in some districts.

177. The Secretary of Dungloe Credit Society, County Donegal (the County which, as we have seen, was the original home of the ruinous “trust auction” system), stated:—

K. J. Brennan,
18683.

“It is a common practice with these shopkeepers to press for payment of accounts, and when the small holders are not able to meet them, the shopkeeper takes them to the Joint Stock Bank. They jointly sign a bill for three or four months for the whole or the greater part of the account; the shopkeeper gets the money; the customer, who is already charged the credit price, has also to pay the Joint Stock Bank from seven-and-a-half to ten per cent. interest, and renew the bill every three or four months until he gets it paid off. In the meantime he is probably running up another credit account with the shopkeeper, and so the system continues.

“When small holders in our district run accounts with shopkeepers, which they are not able to meet at the end of the year, through a bad season, or when workers do not do well at the Scotch harvest, their dealings are then confined to that particular trader, and, as a rule, they have to buy at credit prices; consequently they get further behind, owing a larger sum than they can ever hope to clear off. They then are at the mercy of the trader, and are not in a position to question his prices.”

A witness from County Kerry expressed the opinion that

“The credit system is a ruinous system, it is ruinous to the farmer and the shopkeeper.

D. O'Connell,
6569.

Q. “Is indebtedness increasing?—A. I am afraid it is more on the increase than on the decrease. That is the information I got from shopkeepers in the provision business.

Q. “There are more getting into debt?—A. Yes; more than getting out of it.

Q. “The shopkeepers are rather lax?—A. Very; they give unlimited credit.”

* Cd. 4310—1908, p. 35.

† The writer of an article upon Agriculture in the *Times* of 6th January, 1913, dwells, we observe, upon the evil of excessive shop-indebtedness amongst the farmers of Great Britain. He states that “probably the greatest source of loss to our farmers is their bad credit and general indebtedness to dealers. In all parts of the country, when one gets below the surface, one nearly always finds a majority of the farmers entirely tied to some trading intermediary who has advanced them money. In some districts it is the cattle salesman or auctioneer, in others the corn and cake dealer, but through one or other of these traders the farmer has to deal, and dares not grumble at either quality or price.”

T. Ward,
12364.

A small farmer from County Monaghan told us the same tale of shop-indebtedness.

"I know cases where accounts run on for years, and the shopkeeper is not anxious, so long as the customer is a solvent person, to clear out that account. He would rather, I am afraid, let the man run on until he gets into such a state that he does not know how he stands, and by that means the shopkeeper secures the custom of that farmer. I am particularly interested in buying seeds and manures, and I know instances where in the spring-time, you will see forty people at a time around a shopkeeper, and I know from my own experience that these are all credit customers, and they never even ask the prices of what they are purchasing. They simply want to get it, and it just depends on the conscience of the shopkeeper what price he puts down."

Evidence as to diminishing shop indebtedness in many districts.

178. We could illustrate further from the evidence the fact that in some districts in Ireland the giving of excessive shop-credit is a practice which exists to a harmful extent. Other witnesses, however, were of opinion that the evil in their districts was a diminishing one, although still fairly widespread. A farmer nominated by the County Down Committee of Agriculture to give evidence, when asked as to habitual indebtedness to shop-keepers, replied:—"It is growing less, but not quickly enough. There is too much credit given in the ordinary retail shops. It would be better for many a small farmer

J. L. Savage,
16407-8.

if the shopkeepers pushed him when he owes £20, instead of allowing him to run on to £30 or £40 which is a large sum for a small farmer to pay. The shopkeeper lets him run up to £40. The farmer pays up to £10 or £15, and he always has a running account of £20 or so. It does not tie him to the shop: but the shopkeeper lets him run too high."

8236.

Rev. P. Glynn, P.P., Kilkee, Member of the Congested Districts Board, in speaking of County Clare, said:—"They are certainly paying their shop bills a good deal better than they used. I am speaking more of West Clare. I used to be in East Clare long ago, and I don't think they borrow or get into debt so much there." The witness added that there was plenty of evidence to show that the position of the farmers was improving and that they were getting more independent. Many other witnesses spoke to the same effect.

The conditions of different districts, from the economic and social standpoint, are extremely diverse, but we can safely say that the weight of the evidence tends to show a gradual decline of shop-indebtedness in the majority of districts in Ireland (particularly where the land has been bought out), an increase in some districts, and, on the whole, an amount in excess of what can be regarded as in any respect beneficial to the agricultural industry. Most of it is, as we shall show, incurred for feeding-stuffs, much of which could be grown by the farmers themselves with advantage.

Preference of most Shopkeepers for Cash Payments.

179. On *a priori* grounds one would expect that most shopkeepers if given the choice would prefer cash customers to those requiring credit; and we had numerous proofs that, generally speaking, this preference is found. A County Councillor in Clare stated:—

J. O'Regan,
9151-2, 9177.

"Farmers, owing to the ignorance of the interest-bearing value of money, often take extended credit for seeds and artificial manures, although they may have ready money, or money in the Joint Stock Banks earning miserably low rates of interest. This system in most cases is not the fault of the shopkeeper, as he, knowing the great value of cash payments, as well as his freedom from loss on bad debts, does everything possible to encourage cash payments.

"I have an intimate knowledge myself of the business of an artificial manure merchant, who, notwithstanding that he allows a discount for cash with order of over ten per cent., does a manure and seed credit business which gives the farmer twelve months to pay, and as a consequence the greater part of his business is on this twelve months' credit system. Here again is a system interfering with the liberty of the farmer to buy in the best market, either through want of cash or through ignorance of the interest-bearing value of money. The farmers, being in the trader's books, don't feel free to purchase in perhaps the cheaper market.

Q. "You say that the farmer prefers to avail of the twelve months' credit rather than the ten per cent. discount he would receive for cash?—A. Yes. . . . There are some types of 'gombeen' men existing, but the up-to-date shopkeeper is more anxious to get cash payment. Money is very valuable to shopkeepers. Wholesale houses gave long credit, but now they encourage cash payments, so that the shopkeeper who has no capital cannot take advantage of it."

M. Fitzgerald,
J.P., 5862-4.

A farmer from County Kerry said:—

"I must say that, as a rule, the shopkeepers are very good, because half of the farmers would be in a bad way without them.

Q. "I think that is a fact that deserves recognition?—A. Yes.

Q. "It is to the advantage of both the shopkeeper and the farmer if business is done on a cash system?—A. Yes; it would be a great assistance to the shopkeeper, because he will never get back some of the money; there is so much competition now that the shopkeepers cannot charge sufficient profit to counterbalance the loss of the money."

180. Not only is it certain that the great majority of the shopkeepers of Ireland would much prefer farmers to deal with them on a cash basis, "long credit" terms being forced upon the traders by the special features of the agricultural industry, especially its seasonal returns, and the consequent scarcity of cash in the spring-time; but we received testimony from farmers as to the great aid which had been rendered them by traders who consented to stand out of their money in bad times, or who advanced funds for such purposes as the emigration of a son or daughter. Several witnesses also informed us that there was frequently little or no difference between the price charged to a cash customer and to one who received credit, the competition between different shops being now so keen in many places. See para. 187.

As against this, cases have been brought under our notice where the shopkeeper has allowed debts to accumulate apparently without any effort being made to obtain payment from the customer. In some instances of this sort, we were told, the main object is to obtain possession of the farmer's land after a time, which may be effected by the agency of a "judgment" mortgage. But one of the chief objections to shop-indebtedness, whether such indebtedness be desired or not by the shopkeeper, is the limitation which it often places upon the choice of the farmer in the purchase of his agricultural requirements. To a farmer it is of vital importance that the quality of his seed and manures should be satisfactory, but he can have no guarantee of this if his state of indebtedness to the trader prevents his being in a position to ask any questions in regard to the quality of the articles supplied. See paras. 825-9.

FARMERS' INDEBTEDNESS FOR FEEDING-STUFFS.

181. One particular form of shop-indebtedness, referred to by several witnesses, seems to us to be of a very unsatisfactory and often unnecessary type; we mean the purchase on credit of feeding stuffs which might in many cases with advantage have been home-grown by the farmer himself. We have space only for a few extracts from the evidence upon this subject. The following witness was a representative of the King's County Farmers' Association:— T. A. Cobbo,
17252.

Q. "Is it your opinion that the farmers sell too much off their land, instead of utilising the produce of their land themselves?—A. Yes. It is deplorable to see them selling their own grain and buying feeding-stuffs of an inferior quality.

Q. "Is that due to the puffing in the newspapers?—A. The farmer nearly always wants money, and when his harvest is cut he wants to realise in order to pay the shopkeeper. He could use a great deal more of his grain, oats especially, than he does.

Q. "What hinders them from doing that—is it due to wrong ideas, or is it lack of facilities for credit?—A. I think it is mainly because they want the money. There are very many demands waiting on them by the time their corn is ripe.

Q. "Are not some of these demands for the purchase of feeding stuffs?—A. Invariably, and for manures.

Q. "So it is a vicious circle—they sell their own feeding stuffs at a low price because bills are coming in for feeding stuffs that they bought at a higher price?—A. That is very often what is happening. Sometimes, of course you can buy food stuffs as economically as you could produce them.

Q. "Some of the evidence we had before us was to the effect that far the greater proportion of the indebtedness of farmers to shopkeepers is for flour and meal, pollard, cake, and various forms of feeding stuffs, which they could produce on their own farms?—A. There is no doubt about it. That is my own experience. I use the greater part of my own grains for feeding cattle.

Q. "So if they change their practice in that respect a great deal of their present indebtedness to the shopkeepers would disappear?—A. There is no doubt about that, but they would want help to do it."

Another farmer stated:—

"They use Indian meal too frequently altogether. I hardly ever use it, because it is expensive, but the ordinary farmers use it for fattening pigs.

Q. "It would hardly pay to buy the meal at the present price?—A. It would not.

Q. "How can these people be helped?—A. It is hard to get people to attend lectures, but if it was pointed out to them that they could feed their cattle on the produce of the farm, it would be a good thing."

Q. "The main indebtedness of these people is for feeding stuffs?—A. Yes.

Q. "And if they grew their stuffs on the farm that would do away with that indebtedness?—A. Yes; They imagine they cannot do anything without Indian meal, and my opinion is that it is the dearest article that ever came into a man's house. There is a woman in my place who sold two pigs for £9. She was delighted with the price, but I made up with her what she spent on the animals, and estimated that her profit was only 1½d.?"

Q. "And she was quite satisfied with the price?—A. Yes; she bought all the feeding."

RELATIONS BETWEEN TILLAGE AND SHOP CREDIT.

182. The above quotations illustrate the close relation which exists between the important subject of the revival of tillage in Ireland and the shop indebtedness of the farmers. The question as to whether tillage is as profitable as other forms of the agricultural industry is one which is being perennially discussed and deservedly so, for upon a satisfactory solution of it depends, we believe, very largely the economic success or otherwise of the operations of the Land Purchase Acts. Instances were furnished at our Inquiry of the success of small farmers who had grown their own feeding-stuffs, and had accordingly improved their circumstances, which illustrates, we believe, the gain which would accrue to the rural economy of Ireland if there were a general revival of tillage. In the case of small farmers who do not pay labourers, considerations based upon the cost of labour do not enter into the problem. Whilst we fully recognise the difficulties, it is often we think lack of thought upon the subject, and perhaps in some cases mere indolence, which retard this desirable change in farming methods, and incidentally augment the farmer's burden of shop indebtedness.

A pregnant illustration of the evil of rural indebtedness to traders is the course pursued by some farmers of selling their corn to the shopkeeper from whom they bought the seed, and to whom they are in debt for the cost. The Secretary of the Carlow County Committee of Agriculture stated :—

“In the case of the purchase of seed corn in the spring, the trader sells to the farmer at an enhanced price. A barrel of barley that would cost 16s. if you paid cash, is charged 20s. on credit. The farmer is obliged in most cases to sell the barley back to the trader from whom he bought the seed.

Q. “Is the quality supplied on credit the same as that supplied for cash ?—A. No.

Q. “You say that the farmer is obliged to sell the barley back to the trader from whom he bought the seed ?—A. Yes.

Q. “I suppose he does not get a higher price in consequence ?—A. No.

Necessity of education of farmers in questions of book-keeping, accounts, relative cost, &c.

183. It seems certain that in many of these exceedingly wasteful methods of conducting farm operations the farmers act in ignorance of the financial losses they are incurring. Education alone can remedy this defect, and, therefore all agencies which make for the spread of education amongst the rural community—such as Itinerant Instructors, Winter Classes, Agricultural Schools, Co-operative Credit Societies, and Agricultural Societies—are to be welcomed as assisting in this valuable work. We would urge that in all such forms of rural instruction the greatest possible scope should be given to the teaching of the principles of book-keeping and to questions affecting rates of interest, the value of money generally, and problems of profit and loss and of comparative cost in agricultural operations.

See paras. 635-7.

Elsewhere we have given some illustrations of the increasing attention which is being paid in Continental countries to such instruction of farmers and to the establishment of regular offices of Book-keeping and Farming Accounts. In a recent article upon the subject “What assistance can Live Stock Farmers expect from Book-keeping and Calculations,”* the writer states that “the most important question as regards the market is whether it is more profitable to feed saleable cereals, pulse, &c., or to sell them and buy commercial food-stuffs in their place.” A great deal, we believe, remains to be done by education in arousing the small Irish farmers to a sense of the serious losses they are sustaining through causes of which the remedy is largely in their own hands.

Some Figures of Shop-indebtedness.

184. The extent to which in some cases shop debts press upon the agricultural industry in the Western districts of Ireland is exemplified by actual figures supplied in 1907 to the Royal Commission on Congestion by Mr. George F. Trench, of Co. Kerry, then a member of the Council of Agriculture. The debts in the following table were, according to the witness, all due to shopkeepers, and did not include the rent owed to the landlord. It

*See *Bulletin of Agricultural Intelligence and of Plant Diseases* (Rome), November, 1912, p. 2,503.

does not appear, however, whether in each case the debt was owed to one shopkeeper or to several.

Yearly Rent.	Amount of Debts.	Observations.	Yearly Rent.	Amount of Debts.	Observations.
£ s. d.	£		£ s. d.	£	
18 18 0	500	And only half stock.	86 0 0	558	Three-quarter stocked.
38 7 6	350	Do.	96 5 0	482	Three-quarter stocked.
23 18 6	125	Short one cow.	4 0 0	39	Two cows only.
18 0 0	170	No stock.	126 15 0	755	Twenty cows.
62 0 0	450	Full stock.	38 4 6	420	No stock.
18 19 6	175	No stock.			

The witness in referring to these figures of indebtedness, said :—" I am sure it is done with a great deal of carelessness sometimes ; but generally the idea is with big merchants that if a man gets into debt they can always secure his produce, and he will bring his produce and corn to them, and that will work for their mutual benefit. If it were not for that he could go anywhere with his corn, and he could compete with another ; and it is a great thing to hold him."*

Rising standard of comfort, and increasing cost of living.

185. It should be borne in mind that while the greater independence and increasing prosperity of the farmers who have purchased their land tend *per se* to reduce shop-indebtedness, there are other factors which work in the opposite direction. Greater independence will also lead in most cases to a higher standard of comfort and of living amongst the agricultural classes ; much more will, therefore, as a rule, be spent on clothing, food, and household articles than in times past. This tendency will make for an increase rather than otherwise in shop indebtedness, unless other and more desirable forms of credit are provided for the small rural classes. The increasing cost of living and of the price of labour are additional influences working in the direction of augmenting rather than diminishing rural indebtedness. Within moderate limits, however, such increase would not be in itself injurious, but would be rather a symptom of the increasing prosperity of the country.

In our view one of the greatest advantages to be derived from the wide-spread establishment of Credit Societies would be the gradual freeing of many small farmers from their burden of shop debts, and the bringing about of more satisfactory conditions under which the purchaser of agricultural requirements will be at full liberty to chose the shop at which he will deal. The great bulk of the traders would welcome, we believe, any agency which would enable their rural customers to pay cash for their goods. On this point Mr. George Russell, speaking from his experience as an organiser of Credit Societies, informed the Royal Commission on Congestion that, so far as he knew, local traders had never openly tried to suppress a Credit Society.

" Sometimes you will get very generous traders who will not only deposit money themselves, but come in and give their assistance quite freely and generously. I don't for one minute mean to imply that every trader in a congested district is a goomben man. There is a certain number of them, and in many districts the whole business traditions of the traders of the district are very bad, and it is most desirable to establish a society and by competition keep down the prices, but I would not like to say that all these men were exacting usurious interest or high rates.

Q. " You don't know any cases in which traders have become members of these banks ?—A. I do.

Q. " With a view to throttling them ?—A. No ; I don't think so."†

Credit transactions of " barter " description.

186. A practice which has in the past proved very injurious to the poorer farmers of Ireland, particularly in the West, is that of disposing of their produce to shopkeepers by what has come to be known as the " barter " system, although the term is not, perhaps, strictly accurate. A trader will take, say, eggs from his customer and allow so much per dozen, or score for them, the amount being entered in his books as a set-off against the

* See *Eighth Report of Royal Commission on Congestion in Ireland* [Cd. 3838—1907], Minutes of Evidence, A. 43397.

† *Third Report of Royal Commission on Congestion in Ireland* [Cd. 3412—1907], Minutes of Evidence, A. 11219—21.

groceries, feeding-stuffs, &c., bought by the farmer. The latter frequently has little or no knowledge of the amount thus allowed. This hurtful practice is, we think, distinctly on the decline, and only to be found in districts remote from country towns. It is often connected with the system of collecting agricultural produce, such as eggs, butter and poultry from scattered farmhouses by carts sent out by certain shops. Too much could not be said in condemnation of a method which is one of the most baneful to the interests of the small agriculturist, in that it enables several profits to be made simultaneously by a shopkeeper at one transaction.

Aid given by Shopkeepers in advancing credit to Farmers where Banks would refuse it.

187. A factor in the problem of shop credit which is at times lost sight of is that no Joint Stock Bank or other lending institution would advance money to many of these poorer farmers, owing to the latter having no tangible security to offer. Undesirable in many respects as the practice is, the financial aid given by traders to this needy class has frequently been their main resource in times of exceptional stress, and will continue to be so until improved credit facilities suitable to their requirements are provided. Mr. W. J. D. Walker, member of the Congested Districts Board, who has had considerable acquaintance with the economic and social conditions of the West of Ireland, stated in his evidence at our Inquiry :—"The principal man who is financing the people in the West of Ireland is getting a very bad name—the grocer—but if you take the risks he incurs, I don't think his charges are too high. He lends year after year. He is getting a very bad name, but there is no bank that would lend money to the people he deals with, except at a very high rate of interest. The rate of interest depends upon the security, and there is practically nothing in the way of security to give ; but these people are marvellously honest. In Donegal when the fishing was started at Teelin, and the people began to earn money, they paid accounts that were contracted in their fathers' and grandfathers' time. The people are very honest, and the grocer knows these people, and he lends to them when no bank would touch them, because there is nothing in the house to seize."

Similar evidence was given by Rev. A. Clancy, P.P., County Clare, who said :—

"I know of cases of people who failed in their agricultural pursuits, and to whom shopkeepers advanced goods for years and years until they tided over the bad times, and in those cases the credit that they got from the shopkeepers practically kept them going, and in place of being an abuse, it was rather a good thing to have the credit, because I know that the debtors in that case are rather grateful to the shopkeepers.

Q. "I suppose they were treated very generously ?—A. Yes ; the other day I was speaking to a man who had been for a long time in very low water, and he told me he was improving. I suggested to him that perhaps he might ultimately come to pay the priest. 'Well,' he said 'for over ten years Mr. So-and-so gave me all the goods I wanted without a penny, and now I think I must pay him back first.' I said, 'You are quite right.' For ten years he had got credit for food and clothing from a local shop, and the prices he was charged were not exorbitant by any means. The prices were very moderate ; they could compare favourably with the town prices, and in some cases they were lower.

Q. "Was that shop in a town ?—A. No : on the roadside."

In the criticisms offered regarding shop-indebtedness, less than justice, we think, is frequently done to the real benefits conferred by many traders in standing out of their funds for lengthened intervals, with little or no extra charge, in order to assist poor and deserving customers. Evidence of these services, and of the appreciation felt by small farmers who have been assisted in this way, was furnished at our Inquiry by witnesses representing the agricultural classes. But the system of long-term shop credit is so liable to abuse that the discontinuance of any necessity for it would be of much benefit to rural Ireland.

ADVANCES TO FARMERS BY BUTTER MERCHANTS.

188. A description of rural credit which in former times was much resorted to in Ireland, but is now much more limited in its operations, is the making of advances by butter-merchants to the farmers who supply them with butter. The working of the system was described to us as follows by a witness who had long experience as an official of the Cork Butter Market and as a butter merchant.

"Large sums of money were lent by the butter merchants to the farmers against butter which the farmers were to send later on in the season. The Cork butter market did a very large business in that respect. At that time it was the only market in the South of Ireland, and the farmers resorted to it very largely, both for the price that they got and also for the facilities which the merchants gave them.

They got money in advance from the merchants. The weakness of that system, to my mind, was this, that the security which the merchants in those times got for the loans they advanced was inadequate. The farmer lived a very considerable distance from Cork, and sometimes the debtor of a butter merchant would be dead and buried before the merchant heard of the fact; and, consequently, very considerable sums of money were lost to the merchants in those times to my knowledge.

Q. "Does that custom prevail now of advancing money to farmers?—A. No; it has completely altered. Of course, the beneficial influences of the Land Act have reduced considerably the rents paid by the tenants. The prices in the meantime have advanced for farm produce, and the result is that the farmer is infinitely better off than he used to be, and he has not the occasion to have recourse to credit which his predecessors had some years ago."

Particulars of the system of credit adopted.

188A. Although the practice has very largely diminished, we have had evidence proving its continued existence in some districts, especially in the South of Ireland. A farming witness from County Cork informed us that frequently a farmer will avoid the Joint Stock Banks:—

D. O'Callaghan,
2040-41.

"He will go round to the butter merchant or creamery proprietor, and get on better with them. He has nothing to do but to write for the money to the butter merchant or the creamery to whom he sends his butter or milk. He has to go to no trouble. He will write for the money early in the year or meet the butter merchant's representative early in the spring, and he will get the money and pay it back as the year goes on; but, as a rule, the butter merchant stops the money out of his butter at a needy season—they stop it in the middle of June.

Q. "They call in the money then?—A. Yes; Up to the middle of June the butter merchant who has advanced money in March or April will allow them to get the price of three or four firkins.

Q. "Is the farmer bound to supply his butter to this particular merchant?—A. Yes.

Q. "And it is the merchant who regulates the price of the butter?—A. The butter is sold in the Cork market and the price is fixed by the Inspector. The farmers are under the impression that if they were independent they could do better with their butter.

Q. "They think that if they could sell their butter wherever they wished, they could then get a better price?—A. Yes; or even from the particular merchant if they had not money borrowed from him.

Q. "What is the interest charged?—A. Generally five per cent. It sometimes goes up to ten or fifteen per cent.

This witness added that the Joint Stock Banks "give the money to the butter merchant and the butter merchant gives it to the farmer. There is a middleman coming in, and the farmer finds that he is not at liberty to do what he likes with his butter. It is the same way with the creameries, but I think they are not so sharp with their customers as the butter merchants."

It is needless to dwell upon the undesirable features of a form of credit which, while convenient for the moment to the borrower, tends to limit unduly his freedom in the selection of a purchaser for his agricultural produce. But the custom is steadily dying out with the increase of other credit facilities, and is not, in our opinion, any longer a serious factor in Irish rural economy, save perhaps in a few districts.

ADVANCES TO FARMERS BY AGRICULTURAL SOCIETIES AND CREAMERIES.

189. Another type of credit of somewhat the same nature as the foregoing is the custom prevalent amongst Agricultural Societies and Creameries of making advances to their customers. In the Agricultural Co-operative Societies the practice is for the Society to raise an overdraft at the Bank on the security of their Committee. The seeds, manures, &c., are then bought for cash (thus taking advantage of the cash discount) and distributed to the members, who are given credit until the autumn. The seed loans advanced to farmers through Credit Societies by the Department of Agriculture are of a similar description. These forms of credit transaction seem in the highest degree desirable, and must often prove a boon to numerous small farmers.

R. A. Anderson,
1851.

See paras. 562-3.

The lending operations of Creameries are, however, open to objections similar in kind, but not perhaps in degree, to those applicable in the case of butter merchants' loans. The Secretary of the I.A.O.S., in speaking of these Creamery advances said: "Many creameries lend money to their members too. It is not such a good plan in the case of Creameries, because there is no bond, and the security the Creamery has is the repayment by the milk delivered by the member. I am afraid it is a heritage of an old system, and I do not like it. I do not think it is a development along right lines. We have urged any Societies, where they have had transactions of this kind—sometimes a couple of thousands of pounds—to insist on proper securities, and not to require payment in milk, because we think that is bad. We have a scheme for them that we hope to have carried out."

1851.

J. O'Regan,
9151.

3048.

Proprietary as well as Co-operative Creameries make advances of this sort. A County Clare witness said :—" Proprietors of creameries have also a system of loaning money to farmers to purchase cows on their own note of hand ; some charge no interest, while others charge interest at the rate of six per cent., but in each case the farmer must send his milk to the creamery of the lender. This is a system which interferes with the liberty of the farmer in choosing both his creamery and his methods of farming." The Most Rev. Dr. Kelly, Lord Bishop of Ross, brought under our notice an instructive case of a farm being sold up by a proprietary creamery in connection with money due to it by a farmer under this system of advances. The method is one which, like several others above referred to, offers facilities that tempt farmers to have recourse to it in preference to sounder forms of credit ; but in many cases the results are the reverse of beneficial. We are glad to learn that the I.A.O.S. discourages the practice in the creameries affiliated to that Society.

Increasing Competition of Shops and improved transit facilities.

190. It does not lie within the scope of our Inquiry to deal with the various problems connected with the decline in the rural population and the increase in the urban population of Ireland. In the decade 1901—1911 the agricultural classes diminished by 10.8 per cent., and the industrial by 4.06 per cent., while the commercial class increased by 13.5 per cent. in the same period (the diminution in the total population being 1.53 per cent.) The whole question of rural depopulation is at present attracting much attention in various countries, and an extensive literature upon this important subject now exists.

Nor do we propose to enter into the controversial question of the relations between shopkeepers (or middlemen) and farmers in Ireland, save in so far as it has a definite bearing upon the rural credit problem. In this respect the evidence offered at our Inquiry gives strong confirmation of the view that the increasing competition of shops in country districts has done much to break down the injurious monopoly of individual traders by setting up keen competition to the distinct advantage of the farmers in the consequent reduction of prices. The increasing use made of the parcels post, and the improved facilities for communication and transit operate in the same direction.

Opportunities of tendering given by some Co-operative Societies to local traders.

190A. We learned of several instances in which Co-operative Societies have taken advantage of increased trade competition by giving an opportunity to local shopkeepers to tender for the supply of agricultural requirements. Thus Rev. M. Aherne, c.c., of the Gortroe Agricultural Society, Youghal, said :—

4005.

"What we always do is, we get to know the quantity of goods which our members require, and we then invite the merchants to tender for the supply. We invite the local men and those from a distance, and let them come into competition, and we give the order to the lowest tender, and always give a preference to the local man. I don't think any merchant could object to supply us on these lines. That is what is done by the public Boards of the country. If a merchant does not reply to our invitation, we don't ask him again to do so ; or if, when we examine our goods, we find that they are of a low quality or bad, we don't ask the man who supplied them to tender again ; but at the same time, we give him an option by leaving it open to him to tender again on paying a fine. We fined one merchant £6 and another £3."

4086.

This witness informed us that "the merchants compete and they cut their prices very keenly."

A similar plan was referred to by Rev. A. Clancy, P.P., Ennis, another witness interested in the work of co-operation, who said :—

8890-2.

"The town traders have been up in arms against the co-operation of the farmers because they say it is interfering with their legitimate trade. I don't believe it is interfering with their legitimate trade, but I think it would get over their objection, and do as well for the farmers if the town traders got a chance of tendering. I know a case in West Clare where an agricultural Society had been getting certain manures from the manufacturers at prices very much lower than the shops in that district. One year a local trader offered, if they gave him an order, to supply them at the manufacturer's price.

Q. "Did they agree to that ?—A. Yes.

Q. "Did they find the seeds supplied by the local trader satisfactory ?—A. They did."

Farmers and "Middlemen."

191. It is certain that with the steady spread of agricultural co-operation—and few, if any, agencies possess, we believe, more potentialities for good in the development of Ireland's rural economy—shopkeepers will stand to lose in some directions. Such losses are inevitable concomitants of all progress. If farmers, for instance, were, as we recommend above, to go in on a much larger scale for the home growing of their own feeding-stuffs and to desist as far as possible from the wasteful practice of buying these requirements in shops (often at a higher price than that which it would cost to grow them), one result would naturally be seen in much diminished shop bills for these articles. But in the end the increased financial gain to the farmers would unfailingly re-act beneficially upon the shopkeepers, for with added material prosperity the farmers would be in a position to augment their expenditure in other directions, especially in the necessities, and even luxuries, of household consumption, and to pay cash where now they purchase on "long credit." It is also to be recollected that many shopkeepers in Ireland are themselves also farmers, or are married to the daughters of farmers, so that the line of demarcation between the two classes is often very indistinct. By a process of mutual give-and-take to the advantage of both parties, on lines similar to those followed by the Gortroe and other Societies, it seems possible to avoid, to a large extent, needless causes of friction.

Need for recognition of true position of agricultural industry.

191A. We may add that one effective means of retarding any undue increase in the so-called "non-producing" classes and the decline in the numbers of the population engaged in work upon the land would be the successful instilling into the minds of the rising generation in rural districts of a much-needed recognition of the true dignity of the agricultural profession, and of the many real advantages which it has to offer. There is a marked tendency, we fear, for the sons and daughters of Irish farmers to seek clerical and business employment in preference to an agricultural career, and to look down upon the latter. When to this feeling is added the magnetic influence of towns, with their many advantages and amusements, the increase in the civic population at the expense of the rural is easily understood. All movements for the brightening of village life in Ireland and for the supply of healthy recreations and amusements are therefore worthy of the strongest support. Para. 190.

CONCLUSIONS.

192. Our main conclusions in regard to shop credit advanced to Irish farmers are as follows :—

(a) The "gombeen man" or local moneylending shopkeeper has in recent years almost disappeared from all but some remote districts in Ireland. Paras. 171-2.

(b) An injurious amount of shop credit, on the other hand, still exists, although on the whole the burden is probably diminishing with the improved financial position of the new tenant-purchasers. There was evidence, however, as to shop-indebtedness being on the increase in some districts. Increased cost of living and a higher standard of comfort tend in this direction. A moderate amount of shop credit is, in fact, a necessity in the agricultural as in other spheres of activity. Paras. 173-8, 184.

(c) The great majority of traders would, we believe, much prefer a cash basis for their dealings with farmers; but undoubtedly some are desirous of retaining customers in their debt so as to keep a hold upon them. The increasing trade competition in country districts, combined with the parcels post, and improved facilities for communication, are doing much to abolish the monopoly of individual shops which often existed in the past. Paras. 179, 190.

(d) In some cases interest is charged by shopkeepers for amounts overdue, while in others no extra charge is made for moderate periods of credit. But the system of "long credit" lends itself to serious abuse, through the ignorance of many of the smaller farmers as to the exact prices paid or interest charged. Increased instruction in book-keeping, accounts, value of money, questions of relative cost, &c., is much needed in rural districts. Para. 18.

(e) A great deal of the indebtedness of the Irish farmer is for food and feeding-stuffs, much of which could with profit be grown upon his own land. Inferior goods are at times supplied to "credit" customers. The revival of tillage, especially on small farms where difficulties connected with the cost of hired labour do not arise, is an urgently needed reform which would in itself tend to reduce shop debts. Paras. 181, 2.

Paras. 180, 187.

(f) Many necessitous farmers have often been saved from bankruptcy in bad seasons by the financial aid rendered by shopkeepers who have advanced money or allowed accounts to remain unpaid in cases where no Joint Stock Bank or similar institution would or could have assisted. In numerous instances the traders have stood out of their money for years with little or no recompense. It is fair that these services should be recognised; but a sound credit system suitable to the needs of the poorer farmers would render such aid from shopkeepers largely unnecessary.

Paras. 186, 188,
189.

(g) The injurious system allied to "barter" is one of the worst possible forms of rural credit; but it has, like gombeenism, almost disappeared from Ireland save in districts remote from country towns. Lending by butter merchants to farmers is also an undesirable system which has greatly diminished. Advances by creameries, repayable in milk supply, should be discouraged; but the credit dealt with through the agency of Agricultural Societies, and through seed loans to Credit Societies, is one of the best methods of financially assisting the smaller farmers.

Paras. 190, 191.

(h) Much could be done to solve the controversial problems associated with the relations of farmers and "middlemen" by an opportunity being given by Agricultural Co-operative Societies to local traders of tendering for the supply of agricultural requirements, a plan followed by some of these Societies; and by traders, on the other hand, recognising that the increased prosperity of the farming classes effected through such agencies as co-operation must react favourably upon the general purchasing powers of agriculturists, a loss in some directions to the trader being more than compensated for in the long run by gains in other directions.

SECTION VI.

THE LOAN FUND BOARD SYSTEM IN IRELAND.

We next proceed to deal with the Loan Fund Board system of Ireland in its various aspects, and especially in its relation to rural credit.

The Loan Fund Board system specially remitted to present Committee for report.

193. By a warrant dated 10th January, 1912, His Excellency the Lord Lieutenant appointed a Committee with the following terms of Reference:— "To inquire into the financial position of the Loan Fund Board of Ireland, to which attention has been drawn in their recent Annual Reports; and to suggest what steps, if any, may appear advisable." This Committee consisted of the late Sir Frederick Cullinan, K.C.B., Mr. J. W. Drury, of the Local Government Board, and Mr. J. P. Walsh, of the Department of Agriculture and Technical Instruction, who, after hearing evidence from certain members and officials of the Loan Fund Board, submitted their Report on the 11th March, 1912. We shall later have occasion to refer to this Report, and need only say here that in its concluding paragraph the suggestion was made that a very useful purpose might be served if His Excellency were to invite the Vice-President of the Department of Agriculture and Technical Instruction to include the operation of the Loan Fund Societies within the purview of the Inquiry about to be undertaken by the Departmental Committee on Agricultural Credit.

See para. 222.

Evidence taken in regard to the system.

193A. The concurrence of His Excellency in this suggestion was duly conveyed to your Committee by the Department; and we have accordingly devoted special attention to the operations and results of the Loan Fund system. We may add that in view of the fact that our terms of Reference included all questions affecting rural credit in Ireland, we had already, before we were informed of the wishes of the Irish Government in the matter, decided to obtain any available information in regard to the extent to which the Loan Fund Societies meet the credit needs of the rural classes. We have taken the evidence of eighteen witnesses directly connected in various capacities with the supervision, organisation, and working of Loan Fund Societies, in addition to that of witnesses who were able to speak in their capacity of borrowers from these Societies. Two members of the present Loan Fund Board, Rev. J. C. Irwin, B.D., and Dr. J. R. O'Connell, with Mr. F. C. Scarr, Inspector, furnished us with useful information in regard to the functions of the Board and its relations with the Societies. The other witnesses included Treasurers, Secretaries, and Receivers of Loan Fund Societies in the counties of Antrim, Carlow, Cavan, Cork, Fermanagh, Galway, King's County, Londonderry, Queen's County, Tipperary, Tyrone, and Wicklow.

It will, we think, be advisable at this stage to give an outline of the interesting origin and chequered history of Loan Fund Societies in Ireland. A study of the various defects and failures of the system in the past and of the causes of these failures is, in our opinion, not only necessary for a proper understanding of its present position, but is also very relevant to the consideration of some of the more important problems of rural credit with which your Committee have had to deal.

ORIGIN OF THE IRISH LOAN FUND SYSTEM.

194. It would appear that, as mentioned in the Report of the Committee of 1896* which inquired into the Irish Loan Fund Societies, the system of issuing to indigent and industrious persons small loans, repayable by instalments, was introduced into Ireland by Dean Swift who placed the sum of £500 under the supervising control of certain persons for the making of loans to the poor artisans of Dublin. The advantage to the poorer classes of small loans of money to purchase implements of trade early attracted the notice of the Irish Parliament; and various associations of benevolent individuals organised themselves in order to form by voluntary subscriptions a capital fund to be lent to industrious tradesmen, on the joint security of one or more persons for repayment of the loan within a year, without interest.† The Musical Society‡ which existed in Dublin in the middle of the

* C. 8381-1897.

† See *First Annual Report of the Commissioners of the Central Loan Fund Board of Ireland* (1838); also *Sketch of the Loan Fund System in Ireland*; C. Picse, 1841.

‡ *Abstract History of the Musical Society of Ireland, and of the Progress of the Small Loan System founded by that Society in 1747.* (Dublin, 1838).

eighteenth century applied a portion of the receipts taken at their concerts for the purpose of assisting Loan Societies. In 1756 the Irish Parliament passed an Act which gave some slight protection to the Charitable Loan Funds then in operation; while in 1778 the managers of the Dublin Musical Society already mentioned were, with several other persons, incorporated by an Act of the Irish Parliament (17 & 18 Geo. III., c. 12) as a Charitable Loan Society, and authorised to hold property and to issue loans in the manufacturing counties and market towns of Ireland. These loans were repayable by instalments, but no interest was charged upon them. It will be observed that the Societies were originally intended to assist workers in town industries rather than agriculturists.

"The Irish Reproductive Loan Funds."

195. During the early years of the 19th century various associations were formed in London with a view to improving the condition of the Irish peasantry. Some of these associations gave grants to encourage the straw hat manufacture; others to improve the Irish fisheries, or the state of agriculture, either by small loans of money or by grants of fishing-tackle, or of farming or manufacturing implements. These transactions were, it appears, carried on through local committees in Ireland who corresponded with the parent associations in London. In the year 1823, which followed a year of severe famine, a sum of £331,081 was subscribed for the relief of the acute distress in Ireland, and was vested in a committee of bankers and merchants sitting in London. After the immediate relief of the distress a large surplus, amounting to about £40,000, stood to the credit of this Committee. Various balances which remained in the hands of some local Relief Committees in Ireland brought the amount available up to about £55,000. This fund was worked (under Acts of 1823 and 1829) by County Boards of Trustees in Ireland, who issued loans through the medium of local Associations, with branch offices, in the ten counties of Clare, Cork, Galway, Kerry, Leitrim, Limerick, Mayo, Roscommon, Sligo, and Tipperary.

These local Associations were entitled "The Irish Reproductive Loan Funds," to distinguish them from the already existing Loan Fund Societies, of which a great number had sprung into being. The Boards of Trustees of the "Reproductive Funds" were subject to the audit of the London Board of Directors, who obtained in 1844 a Charter of Incorporation, giving them powers of control over the Irish County Boards. When the further very severe famine occurred in Ireland in 1847, it was proposed that the Fund should be handed over to the Government for disbursement, instead of being circulated in loans. The London Board consented to give up their Charter, and the Corporation was dissolved by Act of Parliament in 1848 (11 & 12 Vic., c. 115), the money in hands being placed at the disposal of the Lord Lieutenant for application to such useful purposes as he might think proper, with the sanction of the Treasury.*

Mr. F. R. Bertolacci, ex-Secretary to the London Board, in giving evidence in 1855 before the Select Committee of the House of Commons on Loan Fund Societies (Ireland),† said that in the year 1845, having become suspicious of the reports furnished from the Irish Reproductive Loan Funds, he made an inspection of the Societies. He added:—

"I found, in going into the details of them, the Board of Directors in London had been very materially deceived; they had received from the trustees the reports which had been annually made to them, and had embodied those reports in their returns; and, in point of fact, a large portion of the Reproductive Loan Fund was not then in operation. When I went to some of the local associations, in some cases I found they were not in existence, and yet the chairman, in some instances, had been signing those returns, and had sent them to London, and they had, consequently, become embodied in the returns, as I have said; in other cases I found that the system was working in a very lax way; and all those circumstances put together, I believe, were the cause of the governors of the fund assenting to the transfer of the fund to the Treasury, to be disbursed for charitable purposes."

It thus appears that the laxity and even dishonesty which, as we shall see, was too often found in the system connected with the Loan Fund Board in Dublin, was prevalent in the working of the Irish Reproductive Loan Funds, under the supervision of the Board of Directors in London.

The Act of 1823 dealing with Charitable Loan Societies in Ireland.

196. In the year 1823 it was considered advisable, as the Dublin Musical Society, incorporated in 1778, had practically become extinct, to encourage Loan Fund Societies

* This sum was vested in trustees known as the "Trustees to Aid Sea and Coast Fisheries of Ireland." In 1884 the fund was transferred to the Commissioners of Public Works. By the Land Act of 1891 it was transferred to the Congested Districts Board, with the exception of £20,000 reserved for non-congested districts. By the Act of 1899 this latter sum was placed at the disposal of the Department of Agriculture and Technical Instruction; but was not actually transferred until 1904.

† *Report from the Select Committee on Loan Fund Societies (Ireland)*, [259], 1855, p. 46.

by special legislation. An Act of Parliament* was accordingly passed which authorised any number of persons desirous of forming a Charitable Loan Society to do so, and to charge interest on loans issued by them.

This Act laid down that it should not be lawful for any such Society "to make any Loan to any one Individual within Twelve Months, or to provide any Implements of Industry for any one Person within Twelve Months exceeding in Amount or Value the sum of Ten Pounds"; but it allowed loans of £100 to be made to a committee or committees of three or more solvent persons, upon their joint and several securities, repayable in twelve months, with interest. No Trustees or Managers were to receive remuneration, but clerks were to be paid salaries and expenses, as sanctioned by Rules. An interesting Section read as follows:—

"All Looms, Spinning Wheels, Reels, Hackles, Calendars, Presses, or other Implements of Industry which shall be provided by the said Societies, shall, before they be delivered out by them, be sealed or stamped with such Mark or Marks as by the said Societies may be directed; and that no such Looms or other Implements as aforesaid, so sealed or marked, shall be distrained for Rent, or on any other Account whatever, or shall be seized by virtue of any Process or Execution by any Sheriff, Seneschal, or Bailiff, or other Person whatsoever, unless in Cases when such Seizure or Sale is at the Suit or on the Behalf of the Societies established under this Act, whensoever the Parties receiving such Implements shall fail in performing their Contract or Engagement for the Payment of the Price of the same."

The final Section authorised Loan Fund Societies to deposit such part of their funds as the Societies might think fit in any Savings Bank established in Ireland under the Act entitled *An Act to encourage the Establishment of Banks for Savings in Ireland*.† A further amending Act was passed in 1829‡

Establishment of Loan Fund Board in 1836.

197. It was not long, however, before it became clear that many abuses had arisen in connection with the Act of 1823. The term "all necessary expenses" to be paid to clerks under the Act had been given a wide interpretation, and members of the families of directors were in some instances largely remunerated, the profits thus being reduced to little or nothing. In some societies the capital was free of interest, while the borrowers were charged 6 per cent.; but the large profits thus earned were swallowed up by expensive management. A further Amending Act§ was accordingly passed in the year 1836 authorising the Lord Lieutenant to appoint a Central Board of Commissioners, entitled the "Loan Fund Board," to supervise the working of the Societies. This important measure, which was the origin of the present Irish Loan Fund Board, enacted:—

"That, for the general Control and Superintendence of all Loan Fund Societies established or to be established in Ireland under the Authority of this Act, there shall be One permanent Central Board in Dublin, to be denominated 'The Loan Fund Board,' the Members of which shall be chosen by the Lord Lieutenant or other Chief Governor or Governors of Ireland for the Time being, and which Board shall have Power to inquire into the Proceedings of all such Societies in order to ascertain whether the Rules so to be certified and enrolled as aforesaid have been duly attended to, and that the Funds of such Societies are applied to the Purposes for which the same are intended, and such Board may, where necessary, appoint Inspectors and other Officers, who shall have Power at all reasonable Times to inspect the Books, Accounts, and Papers of or belonging to such Societies."

Loans not to exceed £10; interest at rate of over 12 per cent. authorised.

197A. It will be observed that this legislation empowered the Board to appoint Inspectors and other officers, but did not specify any mode of paying them! The Rules of a Society had also to be submitted to a Barrister (appointed by the Loan Fund Board). The Act laid down that it should not be lawful "to make any loan on personal security to any one individual at any one time exceeding in amount the sum of ten pounds," and also that no second or other loan should be made to the same individual until the previous loan had been repaid. This limitation of the maximum amount of loan to £10 has never been removed.

It was also enacted that the Society could lawfully

"demand and receive from the Person to whom any Loan may be made, at the Time of making the same, the full Amount of Interest up to the Time fixed for Payment of the last Instalment which would be due on the whole Money so advanced, at a rate not exceeding Sixpence in the Pound for Twenty Weeks,"

and that the amount of the principal could be received by instalments at such times and in such proportions as the Trustees or Managers might think fit. Loans were made recoverable before Justices of the Peace; while the Trustees of a Society were enabled to devote such of the surplus profits as they thought proper to local charitable purposes.

* 4 Geo. IV., c. 32. † 57 Geo. III., c. 105. ‡ 10 Geo. IV., c. 42. § 6 & 7 Wm. IV., c. 55.

without reference to the Central Board, save that the Board's approval for the appropriation of the profits was necessary in certain events, such as the dissolution of the Society.

Exemption of certain Societies from control of Board.

Para. 195.

198. Only two years later, in 1838, further legislation (1 & 2 Vic., c. 78) was passed, providing for the appropriation of surplus profits for local charitable purposes by the managers of Societies; giving the Board power to reduce prospectively the salaries of clerks, if they were out of proportion to the business; requiring Treasurers to find security; and exempting all the Loan Funds connected with the Irish Reproductive Loan Funds Institution, above referred to, from any control by the Irish Loan Fund Board. This exemption was enacted in spite of the protests of that Board, and was evidently the cause of much mischief to the whole Loan Fund system in Ireland. Till their cessation, however, the Reproductive Loan Fund Societies continued to be exempt from the authority of the Board in Dublin. In their report for 1842 the Loan Fund Board gave figures for 228 Societies; and stated that there were in addition about 100 Societies in operation, but exempt from rendering any account to the Board; as well as about 30 other Societies working illegally under colour of the exemption clause.

First Annual Report of the Loan Fund Board.

199. In their first Annual Report, that for the year 1838, the Loan Fund Board indicated the risks which would be incurred by departing from certain fixed rules in the local management of Loan Fund Societies, a warning the wisdom of which was more than justified by subsequent events. The Report stated:—

“The Board regard the charging of the established rate of interest, the enforcement of small fines, the limiting the expense of management, the appropriating the profits to local charity, and the inspecting and publicity of accounts as the leading features of the system formed by the Acts of 1836 and 1838; these cannot be disregarded or lost sight of without injury to the borrowers themselves, and without in time rendering these institutions more injurious perhaps than beneficial. . . . No funds having yet been placed at the disposal of the Board, these institutions have hitherto traded on donations and deposits.”

In 1839 the number of borrowers was 352,469, and the gross profit almost £30,000.

Early appearance of irregularities and abuses in the system.

200. In the following year (1840) the Annual Report stated:—

“While the Board gladly draw attention to the benefits conferred by the system, they by no means shrink from admitting that many irregularities, in some cases abuses, exist; but it is their firm and deliberate opinion that this may be rectified by vigilant care and superintendence.”

The chief abuses referred to were the paying of 6 per cent. on large sums and 4 per cent. on small, whereas the converse should have been the case; the paying of large salaries to officers of Societies; the high rents paid for offices; and the misappropriation of net profits. In regard to the last named, the Board expressed their opinion that this arose from a mistaken philanthropy in many quarters, rather than from any intentional misapplication. The Board also complained of their lack of power in defining districts, so as to prevent the clashing of Societies.

In 1842 the Board reported that the various Acts of Parliament had not proved adequate, and emphasised the extreme importance of frequent and vigilant inspection of Societies:—

“These Acts were all drawn at a period when very little was known of the capabilities or evils of the Loan Fund system, and their object was rather to encourage the formation of such institutions than to provide against the abuses to which they are liable. These abuses have increased with the growth of the system, and in many cases have brought the system itself into disrepute, and the present laws have proved inadequate to correct or prevent them. The Board have, therefore, caused a Bill to be prepared embodying such amendments as they deem essential to the well working of the system. . . . The abuses of the system appear to the Board to have mainly arisen from two causes:—

1. The want of a proper and vigilant inspection.
2. The absence of summary power being vested in this Board for the correction or eradication of evils when discovered.”

“With regard to the first clause it may be remarked that it does not appear to have been contemplated by the framers of the Loan Fund Acts that the system would ever reach one-tenth of its present scale of operations, and the sum fixed by the Act as a maximum for the expenses of this Board of control was £600 per annum. There were, at the close of 1842, 300 different offices scattered through 31 counties in Ireland. Some of these offices issue upwards of £1,000 per week. It is desirable that these offices should be visited and the books inspected two or three times in every year by an officer of the Board; and it is absolutely necessary that they should be visited at least once a year to examine into accounts and the general working of the Society. The Board also think it very desirable that one of their officers should be present at the opening of every new society. But far from the Board being enabled to extend this necessary inspection, the funds placed at their disposal have not admitted of their making even a preliminary inspection of each society, being little more than adequate to defray the expenses of their office in Dublin.”

THE IMPORTANT CONSOLIDATING ACT OF 1843.

201. To remedy the growing abuses and defects of the Loan Fund system the important Act of 1843* was passed. This Act was one "to consolidate and amend the Laws for the Regulation of Charitable Loan Societies in Ireland." It repealed most of the provisions of the previous Acts of 1823, 1829, 1836, and 1838, and is the Act under which the existing Societies carry on their operations. The Act is a lengthy one. A concise summary of its main provisions, appears in the Report of the Committee of Inquiry of 1896.† It authorized a rate of discount on loans not exceeding 4*d.* in the £ for 20 weeks, the amount of the principal to be received by instalments as decided by the Trustees or Manager. The Board was empowered to authorize a Society to lend funds at interest not exceeding 1½*d.* per £ per month, repayable by instalments at intervals of not less than 27 days. One of the most important changes made by this Act of 1843 was the reduction of the rate of discount from 6*d.* to 4*d.* in the Pound for twenty weeks, a period of grace being granted to prevent inconvenience by too sudden a change in the rate. This change reduced the rate of discount from £12 8*s.* 3*d.* to £5 5*s.* 6*d.* per cent. per annum.

Model Rules issued by the Loan Fund Board.

202. It would appear that local Societies did not prepare Rules, as empowered to do by the Act, but made use, with various modifications, of the printed model Rules approved of by the Loan Fund Board, which were in existence since 1836. These Rules have since been frequently modified and improved, especially as a result of the Report of the Committee of 1896. We reproduce in full in the Appendices‡ the model Rules now issued by the Loan Fund Board for adoption, with any necessary changes, by Loan Fund Societies.

During the years following the passing of the Act of 1843 the defects in the system and the abuses to which it was liable seem in no way to have diminished.

In 1844 the Board deemed it advisable to direct that the Rules of each Society should contain a provision that loans should not be granted to borrowers residing at a distance exceeding five miles from the Society's office. During the year the large number of 53 Societies either ceased operations or were in process of doing so.

Illegal rate authorized in 1845 on Monthly Loans.

203. In 1845 the Board called the attention of local managers to the 28th Section of the Act of 1843, which, the Board said, empowered Societies to issue loans repayable by monthly (instead of weekly) instalments, at a rate of *discount* not exceeding 1½*d.* per pound per month, or 7½*d.* in the pound on the sum issued for a period of five months. The circular stated:—

See para. 243.

"The Board consider this description of loan preferable to the weekly system for an agricultural district, as the borrowers have more time to make their loans reproductive, and have not to make so many journeys to the office. These loans are also attended with much less trouble and inconvenience to the gentlemen who so kindly devote their time to working these institutions for the benefit of their poorer neighbours."

We think there can be no doubt but that the Board misinterpreted the above Section, as referring to loans to be repaid by monthly instalments, and also overlooked the distinction between "interest" and "discount" in the reading of the Section. As *interest* the charge of 1½*d.* per pound per month (lunar) is £8 2*s.* 11*d.* per cent. per annum; but as *discount*, it amounts to £13 11*s.* 7*d.* per cent. per annum, on loans repayable by instalments, *i.e.*, a rate higher than that made illegal by another Section of the Act.§

The sum of £1,857,000 lent by the Societies in year 1845 in 507,000 loans.

203A. In the year 1842 the number of Societies in existence had reached a maximum (300) not before or since attained. In 1845 the number had fallen by 45 to 255, but in respect of capital and circulation this year marked the highest figures, which were as follows:—

Capital	£444,427
Amount circulated	£1,857,457
No. of Loans issued	507,339

* 6 & 7 Vic. c. 91.

† C. 8381-1897, pp. 4, 5.

‡ See Appendix 18 to Minutes of Evidence.

§ See the observations of the Committee of 1896 [C. 8381-1897, p. 15].

Greatly diminished Circulation of Loan Funds in 1847.

204. The Board mainly attributed the huge decline of £906,750 in the loans made in 1847 to the fearful famine of that year (the number of loans made was almost 240,000 less than in 1846).

“Many depositors, having no longer confidence in any institution issuing loans to the humbler classes in Ireland, have withdrawn their deposits, or served notice on the Trustees of their intention to do so; whilst others of this class have withdrawn their little accumulated capital, so invested, for the purpose of emigrating.

“But whilst the Board notice the famine as the chief cause of the diminishing circulation of the Loan Funds, it appears to them that there are others in operation.

“In the first place, the tendency of the Board’s own control has been to diminish rather than to increase the circulation, gradually closing institutions of doubtful character, which had been certified under the abrogated rules, and refusing to certify any new ones, without having endeavoured to satisfy themselves, in the first instance, of the respectability of the parties proposing to conduct the operations. Another cause of the gradual contraction of the circulation is to be looked for in the odium which has attached to the system generally in some districts where bad management, and the operations of uncertified Societies, or pretended Loan Funds, have brought any sort of money loans to the humbler classes into disrepute. The 53rd Section of the Statute which makes the formation of such institutions penal does not direct this Board, or any other public authority, to take the initiative in suppressing the same.”

See para. 381.

Your Committee, in the Section dealing with deposits in Credit Societies, will have occasion to refer to the evidence which we have received, indicating that the past unhappy history of many Loan Fund Societies has rendered it difficult in certain districts of the country to win the confidence of small depositors, so as to attract their savings to Credit Societies. The lesson as to the vital necessity for a sound system of control and supervision for any small credit institution needs no emphasising.

The position of affairs continued to be so unsatisfactory that in their Annual Reports for the years 1851 and 1852 the Board urged “that some inquiry, Parliamentary or Governmental, is urgently required into the adequacy of the present machinery of local management, and of the existing legislative control over the institution, for the due protection of the savings of the industrious poor that are invested in Loan Funds in this country.” In 1854 Sir John Kingsmill resigned his membership of the Board, informing the Chief Secretary that his action was due to the “inefficient and powerless nature of the law by which it (the Board) is regulated, and the consequent unsatisfactory state of its affairs.”

EVIDENCE GIVEN BEFORE SELECT COMMITTEE OF HOUSE OF COMMONS IN 1855.

205. As a result of repeated representations, a Select Committee of the House of Commons was appointed in March, 1855, to inquire into the Laws affecting Loan Fund Societies in Ireland.

It is clear from the evidence taken both by this Select Committee, and by the Committee of Inquiry appointed by the Loan Fund Board in 1896, that from the very beginning the Loan Fund system in Ireland has had, on the whole, in spite of some undoubted benefits conferred by it, a most unfortunate and in many respects a painful history. In giving evidence before the House of Commons Committee in 1855, Dr. R. R. Madden, the then Secretary of the Board, stated that the losses made by Societies on loans, owing to cost of management (including salaries of clerks, rent, law expenses, etc.) were made up by “illegitimate sources of revenue, excessive fines, and taking prepayments. . . Some Societies go on fining with a view of deriving additional revenue. . . Many Societies continue to impose fine after fine, and there is no regular and uniform practice in the different Societies.”

Continuance of grave abuses in the working of the system.

206. This witness, who had an intimate knowledge of the facts, went so far as to state that “badly managed Societies” formed “a large portion of the whole of the Societies in connection with the Board.” He added that “an illegitimate revenue is derived from excessive fines, from taking prepayments, and from heavy charges for cards and papers, which enormously increase the expense of the loan to the borrower, and far beyond the rate of interest contemplated by the Act; I have known it to bring the expense of the accommodation to upwards of 20 and 25 per cent.” He also referred to cases where fraudulent debentures had been issued by clerks of Societies to themselves and their friends, the frauds not being detected owing to neglect of duty by the local managers. The Board

itself had found it necessary to dismiss two of their Inspectors, "one for very culpable neglect of duty, and the other for incompetency." Some Societies, he stated, had not been inspected for at least three years.

"After my appointment, in March, 1850, I found there were a vast number of these Societies failing, and had for some time previously failed; a great deal of money was lost to depositors. I found that by any means at the disposal of the Board, of a legal kind, it was very hard to control the managers or to have anything like a uniform system of management. I found, practically, when I endeavoured to get opinions from our law officers as to the liability of managers, the result of the different cases I put to them was to the effect that we had not the power of enforcing the Board's general rules, unless there were a direct violation of the Loan Fund Act, or some other Act of Parliament. . . . I think the duties of the inspection were terribly neglected."*

Lack of effective Legal Powers in Loan Fund Board in regard to the Societies.

207. When asked to explain the nature of the control which the Loan Fund Board exercised over the Societies, Dr. Madden replied that it was "by writing to them, and pointing out the rules which they have entered into; and in the case of any violation of them, threatening them with withdrawing the certificate, and with gazetting; but very often making threats, which are perfectly vain, and which cannot be carried into effect." The witness also said that legal opinions had been obtained to the effect that the Board could not withdraw a certificate from a Society, save for some direct violation of some portion of the Act or of some British statute. He intimated that up to 1853 the amount lost in the Societies was recorded as £22,000, but he believed that double that amount had been lost. The capital available for circulation on the 31st December, 1854, was £214,735, and the total amount circulated in that year was £870,024; but in 1845 the circulation had been over £1,800,000. The deposits had in five or six years decreased by about two-thirds.

Dr. Madden also explained that in the years of the great famine, 1846-7, a number of Societies failed, partly through inability of the peasantry to meet their engagements, but also because advantage had been taken of the situation to an enormous extent by fraudulent clerks, "who embezzled, and endeavoured to get out of the charge by laying it to the account of the borrowers. . . . I found that where clerks had been robbing largely, it was said that the borrowers were in three or four categories; one was among the dead; another among the absent in America; another in the poorhouse; very often the money was never in the hands of the borrowers at all, but in the pockets of the clerks."

Early impression that Government security lay behind the Loan Fund system.

208. During your Committee's Inquiry they have had abundant evidence of the fact that the depositors in Loan Fund Societies have been under the impression, even in comparatively recent years, that they had Government security for their money. From the evidence given before the House of Commons Committee of 1855 it is clear that this fatal misapprehension existed to a large extent from the earliest years of the system. The following quotation from Dr. Madden's evidence, dealing, amongst other matters, with this particular point, is of interest:—

See para. 237.

"There are two sources of evil in connexion with Loan Funds: those connected with the control of the Board, and those connected with the management of the local trustees. With respect to the Board, there is the evil of a fluctuating body of Commissioners; you may have a certain number of gentlemen who are members of the Board attending one day, who will be perfectly conversant with the matter in hand, and you may not have any of those gentlemen attending at the next Board, or you may have persons who would be perfectly informed upon one part of the subject, but wholly uninformed upon the other: those gentlemen give their gratuitous services; and there are evils arising from expecting long-continued service without any emolument. With respect to the managers, you have the evils arising from gentlemen giving their names to these institutions without giving their services. The poor depositors, having great confidence in the gentlemen of the locality, believe, when they see their names down as trustees, that those gentlemen are virtually giving their services; and when they see the name of the secretary of the Loan Fund Board at Dublin Castle affixed to the debentures, they think they have got Government security for their money; whereas they have, in fact, neither supervision from the gentlemen, nor have they any security from the Government. . . . I think the institution ought to be abolished rather than be allowed to go on in its present form."

It is evident that the first thirty years' operations of the Irish Loan Fund system were productive of many grave abuses, due to defective legislation, to lack of competent inspection, to grave neglect of duty by the local Committees, to fraudulent acts on the part of officials of the Societies, to illegal exactions from borrowers in the shape of fines,

* House of Commons Paper, 259-1855, p. 10, *et seq.*

etc., and to the absence of proper control and supervision by the central body. This last-named defect was due, it should be said, not only to neglect of duty by the Board and some of its Inspectors, but to the absence of legal powers to enforce the carrying out of Rules.

It may be noted that in the earlier years the Board was a cumbersome body, consisting of about thirty members, only a few of whom were in the habit of attending its meetings. The present membership of the Board is six. At various dates Circulars were issued by the Board to the Societies, with a view to improving the management and securing adherence to the Rules and to the Acts of Parliament; but this action appears to have had little effect, in the absence of legal powers to enforce such regulations.

REPORT OF SELECT COMMITTEE OF HOUSE OF COMMONS, 1855.

209. The Report issued by the Select Committee of the House of Commons in 1855* included the following main recommendations:—

- (a) That security should in all cases be exacted from the Treasurer, and might also reasonably be expected from the Trustees of a Society.
- (b) That it was doubtful whether the existing Loan Fund Board, consisting of unpaid and irresponsible members, was sufficient for its purpose.
- (c) That frequent and efficient inspections of Societies were requisite.
- (d) That unnecessary increase of expense to the borrower by illegal fines, or by harassing demands upon his time, should be discontinued.
- (e) That surplus profits should be utilised in forming a reserve fund towards the expenses of the Board, instead of being appropriated to charitable purposes.
- (f) That after a sufficient reserve had been created, the interest charged to borrowers should be lowered to an amount sufficient merely to pay expenses.

It does not appear that any direct action was taken upon the Report of this Committee, in spite of frequent references to the urgency of the matter in the annual reports of the Loan Fund Board.

Position of the Loan Fund System from 1855 to 1896.

210. From the year 1860 the Board's income began to decline, owing to the decreased sale of forms. In 1867 the deficit was £168, the total income being £667 against an expenditure of £835. In this and several other subsequent years the Board found themselves compelled to sell a portion of their invested funds in order to defray their expenses.

In this rapid survey of the history of the Loan Fund Societies we now pass to the year 1872, when an amending Act of Parliament† was passed, empowering the Board to charge 2*d.* instead of 1*d.* for Promissory Note forms. This change enabled the Board to report a balance in hand of £419 in 1874, in which year the operations of the Societies had fallen to the still large sum of £523,048, as compared with £1,857,457 in 1845.

The reasons given by the Board for the decrease are of interest:—

“This very large decrease for some years past may be attributed partly to alteration for the better in the circumstances of that portion of the industrious agricultural poor of Ireland which constituted the borrower class of Loan Funds, but largely it must be ascribed to the practice which has been adopted by the branch banks throughout the country to a large extent of issuing loans so low as £10, and even £5, to borrowers of the class of farmers and dealers on a small scale, who could only heretofore get loans of such small amounts from Loan Funds.”

See para. 172.

We have pointed out elsewhere how this spread of branch banks in the rural districts of Ireland has also largely led to the almost total disappearance of the old-time “gombeen man.”

We pass over the years from 1874 to 1896, during which the decline steadily continued, as will be seen from the Table given as an Appendix,‡ showing at a glance the figures of the movement from 1838 to 1911. This information has been extracted from the 74 Annual Reports of the Board, and has not before, we believe, been available in this concise form.

APPOINTMENT OF COMMITTEE OF INQUIRY, 1896.

211. In 1896 the Board had under consideration the Report of their Inspector, Mr. Young, detailing the evils of management which existed in several districts of the country. These abuses had been previously reported, and their discontinuance had been ordered by the Board. As, however, the Inspector found that no proper effort had been made by the Societies to carry out reforms in accordance with the instructions given, the Board

* House of Commons Paper, 259-1855. † 35 & 36 Vic. c. 17. ‡ See Appendix 21 to Minutes of Evidence.

acting upon a suggestion made by the Government, authorized a Committee of Inquiry to investigate and report to them concerning the working of the local Societies. This Committee was directed to ascertain, amongst other things, whether the Rules were duly observed by the Societies; whether funds were properly applied; whether renewal of loans took place; and to inquire into "all frauds, abuses, and impositions," and the proper means for remedying them. Many of their recommendations have since been adopted, and were availed of in the revised Rules printed by us as an Appendix.* It is evident from their Report that the general condition of the Loan Fund system had little, if at all, improved during the long interval of forty years which had elapsed since the Report of the House of Commons Select Committee.

MAIN FINDINGS OF COMMITTEE OF INQUIRY OF 1896.

212. We insert here some of the more important findings of the Committee of 1896. Seldom has a more condemnatory Report† been issued; and it should be noted that the majority of the abuses and defects were said to be very general, and to be not confined to a minority of the Societies. The state of affairs revealed by this Report of seventeen years ago has been so largely responsible for the steady decline and present position of the Loan Fund system in Ireland, and the recommendations made convey so many much-needed lessons applicable in the case of all small Societies dealing with the receiving and lending of money, that we regret considerations of space prevent us from inserting more than a brief summary of the findings. The evidence received at our Inquiry furnishes convincing proof of the manner in which the confidence of small rural depositors and borrowers in Ireland has been shaken by the past mismanagement and failures of so many Loan Fund Societies. Para. 381

The Committee found that :—

- (a) An almost universal overlapping of districts existed.
- (b) The management was usually left by the local Committees in the hands of the clerks; little or no personal interest was taken by Treasurers or members of Committees in the working of the Societies; there was often no verification of accounts by members before certifying them as correct.
- (c) The maximum salaries allowed by Rules were usually paid to clerks, the average being £96 10s.; these payments were, as a rule, altogether excessive having regard to the duties performed, which rarely involved more than one day's work each week. The same person frequently acted as clerk to several Societies, with salaries totalling from £200 to £600 per annum.
- (d) Excessive rent was often paid for office accommodation, especially when the clerk of the Society was landlord. Treasurers had frequently received remuneration under heading of "incidental expenses," although they seldom discharged their duties.
- (e) Little encouragement had been given to thrifty people to place their savings with the Societies. The maximum rate of discount, even on "free" capital, had been charged to borrowers, in order to obtain funds for payment of salaries and of interest on debentures. The majority of the Societies had become merely private money-lending offices, making loans indiscriminately without regard to the character of the borrower, the only consideration being the solvency of the sureties. Borrowers had been accepted as sureties for other borrowers to an unlimited extent.
- (f) Fines, in spite of the Board's prohibition, had everywhere been made a source of revenue, and were often calculated on the maximum scale.
- (g) Renewals of loans had, in spite of legal prohibition, been the practice in the majority of Societies, and were the most serious abuse discovered. These renewals, with the infliction of fines, often caused the rate of interest paid by borrowers to exceed 20 per cent. per annum, not including the expenses of bringing in sureties, etc.
- (h) The needs of agricultural borrowers were not met by loans repayable in weekly or monthly instalments, since such borrowers could not obtain a return from the expenditure of the loan until the end of seven or eight months.

*See Appendix 18 to Minutes of Evidence.

†Report of the Committee appointed to inquire into the Proceedings of Charitable Loan Societies in Ireland, established under the Act 6 & 7 Vic., c. 91. [C. 8381-1897]. This Report of 1896 should be read in conjunction with this Section of our Report.

213. The Committee appear to have taken much pains to ascertain by direct investigation from all the borrowers the position of affairs in regard to the Societies. They were thus enabled to detect the entry of a number of fraudulent loans, and, in one case, to ascertain that the clerk of a Society had embezzled its funds to the extent of £580. Another result of this systematic investigation was that the Committee discovered that thousands of poor people had been kept permanently in debt at a high rate of charge for long periods—for ten, twenty, and even forty years, long after the loans had ceased to be of productive utility to the borrowers, but had become a species of ‘rent charge’ on the families of those by whom they were originally obtained.

The Committee added :—

“ We regard the breach of this rule during a long course of years, by a large number of Societies, as the most serious abuse which we have to bring under the notice of the Board, and with a view to preventing every possibility of the continuance of the renewal system, we recommend that the practice which we found to exist in some well managed Societies be made a rule for all, viz., that in all cases a clear interval of at least one week shall elapse between the payment of the final instalment of one loan and the issue of another to the same individual; and that in cases in which the instalments have not been regularly repaid the consideration of an application for a fresh loan shall be further deferred.”*

Legislation proposed by Committee of 1896 to strengthen powers of Board.

214. We need not here give in detail the recommendations made by this Committee of 1896. It is important to note, however, that they considered that legislation would be necessary for the more effective control of the Societies. They stated :—

“ We have carefully considered the question of the existing statutory powers of the Loan Fund Board, and have come to the conclusion that legislation is necessary to enable the Board to more effectively control the operations of the Societies to which certificates have been granted under the Act of 1843.

“ At the present time the Board has no alternative but to order the dissolution of a Society in the event of non-compliance with the Rules under which it holds a certificate. The Board has no power either to recall certificates issued in past years or to impose on the Societies Rules which it may consider necessary for their proper management. . . .

“ We accordingly recommend, in the event of legislation being found possible, that Section 9 of the Act of 1843 be repealed, that all Loan Societies established under that Act be required to submit to such rules and regulations as the Board may consider advisable, and that proceedings for recovery of Loans be restricted to the Court of Petty Sessions, whose decision should in all cases be final.”†

The final paragraphs of this Report read as follows :—

“ Although we regret to have to report that out of the 104 existing Societies there are perhaps not more than twelve or fourteen Societies worked fairly well in compliance with the Rules, we are satisfied that generally the good more than counterbalances the evil. It is evident that borrowers who have continued for years to avail themselves of the advantages of the system, always regularly repaying the instalments, must have devoted the loans to reproductive purposes, and have been benefited thereby. Of course, this observation does not apply to those Societies in which the loans have been continuously renewed. It is our conviction that owing to the absence in the majority of cases of an energetic local committee, the system has not had, at least in recent years, a fair trial.

“ We have considered the question how far the system may be worked as a banking institution, where the industrious classes may not only easily obtain capital to assist them in their occupations, but what is perhaps more important, may readily invest their savings with advantage to themselves and benefit to their neighbours. It is important to bear in mind that the liability of each depositor is strictly limited to the amount of his deposit; that in a well-managed Society losses by bad debts or defalcations should scarcely be possible, and that in addition to the confidence which it is hoped industrious persons will in the future have in the Societies when placed under the control of local representative committees, there is in many of the existing Societies a large reserve fund affording further security to the depositor.

“ Assuming that the Rules which we submit are in the future complied with, we have every reason to hope that the Loan Fund system will prove of material advantage to the industrious classes throughout the country.”‡

Improved Credit facilities in Ireland since 1896.

215. In connection with the Report of the Committee of 1896, it is important to bear in mind that it was about that time that the establishment of Agricultural Credit Societies in Ireland was commenced. In the year of the publication of that Report (1897), only four of these Credit Societies had been started. Also, the number of branches of Joint Stock Banks in Ireland in the year 1896 was about 250 less than at present. It is clear, therefore, that at that period the small rural classes who required loans, and who were unable easily to obtain them from the Joint Stock Banks, had little alternative but to have recourse to the Loan Fund Societies or to moneylenders. The subsequent increased expansion of Joint Stock Branches and Sub-Branches, and the establishment of Agricultural Credit Societies, have to a very considerable extent altered the situation in many districts since the issue of the Report of the Committee of 1896, and have much diminished the scope of the operations of Loan Fund Societies.

Paras. 282-4

Paras. 38-45

* C. 8381-1897, p. 22.

† *Ibid.*, p. 25.

‡ *Ibid.*, pp. 27, 28.

One effect of that Report was undoubtedly to shake public confidence in the Loan Fund system, as is evidenced by the decline in the number of Societies from 102 in the year of the publication of the Report to 82 in the following year, and by a further decline in almost each of the following years until the present time, when the number stands at 51, *i.e.*, exactly one-half the number which existed in 1897. The circulation of the Societies has similarly fallen from £341,464 in 1897 to £190,846 in 1912, a decrease of 44 per cent.

ACTION TAKEN BY LOAN FUND BOARD ON REPORT OF COMMITTEE OF 1896.

216. The Loan Fund Board, having carefully considered the facts set out in the above Report, directed that a case should be submitted to Counsel "for advice as to the proper steps to be taken with the object of having the Loan Fund Act efficiently administered, and also as to whether such steps could be taken under the existing law, or whether an amending Act of Parliament would be required."* Later on the Board appear to have communicated with the Government in regard to the advice given them by Counsel, and also to have framed and issued, under Counsel's advice and in accordance with suggestions made by the Committee of Inquiry, a new code of Rules for adoption by all Loan Fund Societies. But the Societies as a whole preferred not to surrender the Rules under which they had been authorized to work.

The Board in their Report for 1896 expressed their opinion that without legislation on the lines recommended by the Select Committee of 1855 there could be no reasonable assurance of the removal of the abuses which so seriously endangered the existence of the Loan Fund system; that legislation securing more regular and business-like attention to their duties on the part of Treasurers and Trustees was more necessary than in 1855, seeing that the local Committees included as a rule fewer persons of independent and responsible positions than formerly; and that any evil arising from having a Central Board consisting of "unpaid and irresponsible members" could be remedied by giving them paid assistance adequate to the duties of efficient supervision and frequent inspection.

The Board also expressed their agreement with the recommendation of the Committee of 1855 that the appropriation of surplus profits of Societies to charitable purposes should be discontinued, and such profits employed in aid of the Board's expenses and in reduction of charges to borrowers.

"They desire to record the belief that the Loan Fund system, notwithstanding its defects, is essentially useful to large numbers of borrowers of an humble class, and that these defects are capable of being permanently remedied with the assistance of suitable legislation. The development of hasty agitation against the system is a serious danger; and if, in consequence of such agitation, or of the continuance of abuses, the work of the local Loan Societies were to be abandoned, it is almost certain that the place of these institutions will be taken by gombeen men in localities where the humbler class has to any extent depended on the Loan Funds for advances." †

Complaint was also made by the Board that they had never had any voice in the selection of the paid officials on whom they had to rely; and they pointed out that the only change made in the law since the Report of 1855 had been that a charge of 2*d.*, instead of 1*d.*, for each Promissory Note issued under the Act of 1843 had been made legal by Statute. See para. 210.

Legal Opinions in regard to Renewals of Loans.

217. An important paragraph in the Board's Report for 1896 is that referring to the decision at Petty Sessions and in the County Court "that renewals of notes purporting to be given under the Loan Fund Act cannot be sued on under that Act," this decision imperilling a considerable amount of capital. The taking of renewals, the Board stated, appeared to have prevailed from a remote time—possibly from the establishment of the system.

In 1888 a legal opinion obtained by the Board had been to the effect that nothing in either the Act or Rules rendered renewals illegal when the borrower—without waiting for the expiration of the twenty weeks—paid up instalments then due; or when there was deducted from the second loan the amount due to the Society on foot of the original loan: as the borrower, in these cases, had not at one time more than £10 of the funds of the Society in hands.† In 1893 a further legal opinion had been obtained on the point as to whether a Society could legally sanction a loan to an applicant who was at the time of application in default for one or more instalments on a current loan, even on the understanding that the instalments in arrear were to be deducted from the fresh loan. The opinion of counsel was to the effect that the practice was a gross abuse of the powers given by the Act and Rules, and was illegal. This illegality, however, "would not be a defence

* *Fifty-ninth Annual Report of the Loan Fund Board of Ireland* [C. 3451-1896], p. 4.

† *Ibid.*, p. 5.

to the borrower or his surety when sued under the Promissory Note.”* As a result of this opinion, the Board informed managers of all Societies where renewals prevailed that the practice should be discontinued, and they were given three years to put an end to it. The Board, however, intimated that “this instruction was almost universally disregarded, and but little reform has been effected.”

When it became fully apparent that no improvement had taken place, the Board again obtained in the Autumn of 1896 further legal opinion, which was to the effect that two conditions were essential, under Section 24 of the Act of 1843, to the validity of all transactions between a Loan Society and a borrower. (1) No loan should exceed £10, and (2) no second loan should be made to a borrower until he had repaid the previous one. “Any loan made in violation of these essential conditions is forbidden, and by the Section referred to is declared to be unlawful: in other words, it is illegal, and the illegality may be shown by the parties to the transaction, *i.e.*, it is illegal as between them, and the borrower when sued may show that it is illegal as being in contravention of that Section.”*

Serious difficulties in recovering loans owing to legal position in regard to renewals.

218. It was soon after this opinion had been obtained that the Committee of Inquiry of 1896 was appointed. The Board submitted this Committee's Report to Counsel, asking for opinion as to whether in case of renewal to a borrower of the same loan or a portion thereof the Society could recover the amount of such renewal at Petty Sessions. Counsel's opinion was that the Society were entitled to recover, and that a breach of Rules framed for the domestic government of the Societies could not be relied on as a defence by a borrower, unless such breach resulted in absolutely illegal money demands. But the system of renewals was a violation not only of the letter but of the spirit of the Act. “It was clearly intended that there should be a repayment in cash—otherwise it would be competent for the Society to keep a debt open in their books for an indefinite time. I think the legislature contemplated that a borrower should entitle himself to a second loan only when he could show that he was in a position to pay off the first.”

The Loan Fund Board pointed out that these various decisions did not appear to involve the invalidity, under the ordinary law, of renewed Promissory Notes given under the Act of 1843, but merely meant that such renewals could not be sued on *under that Statute*. If, however, actions were brought under the ordinary law, the absence of a stamp (dispensed with under the Loan Fund Act) would be practically fatal to the claim. The Board therefore suggested that prompt legislation should be obtained, exempting from stamp duty renewals given up to a certain date, and providing a simple mode of procedure for suing on these loans at Petty Sessions, instead of compelling Societies to go, at great expense and financial risk, to the County or Superior Courts. The Board's Report for 1896 concluded as follows:—

“The difficulty of recovering on outstanding notes has had the effect of diminishing largely the making of fresh loans for some months past. The Board are of opinion that the loss of revenue arising from this cause must before long render it difficult to maintain the organisation under which the Loan Fund Societies are worked and supervised.

“Unless the question of existing renewals is susceptible of prompt legislative treatment, which will save so much of the capital represented by them as is fairly and equitably due, the extinction at an early date of the system administered under 6 & 7 Viet., c. 91, appears inevitable.”†

Large decrease in the number and circulation of Societies in 1898.

219. In their Report for 1898‡ the Board referred to the dissolution of a number of Loan Fund Societies and the appointment of Receivers, but stated that it was impossible, without legislation, for the Receivers to recover any considerable portion of the money. A large decrease was shown in the circulation of the Societies, one reason being that a number of outstanding loans, mainly in the north-west of Ireland, represented transactions which were, for one reason or another, irregular, while recent legal decisions had shown managers the necessity for avoiding certain irregularities, especially the renewal of loans. An additional reason was the withdrawal of deposits, owing to want of confidence in certain Loan Fund Societies which had been unable to recover debts due to them. The income of the Board for 1898 was only £495, as against £1,259 for 1896. The expenditure exceeded the income by £519, necessitating the sale of £500 worth of Stock from the invested Reserve. A Bill was introduced in 1898 to overcome the legal difficulty as to recovery of amounts due to Loan Fund Societies, but this measure was withdrawn towards the end of the Session. In 1899 the Board had again to sell £500 worth of Stock.

* *Ibid.*, p. 6.

† *Ibid.*, p. 7.

‡ *Sixty-first Annual Report of Loan Fund Board* [C. 9261-1899].

Legislation of 1900 rendering certain Promissory Notes valid.

220. At length, in the year 1900, the *Charitable Loan Societies (Ireland) Act* (63 & 64 Vic., c. 25) was passed. The chief provisions of this measure enacted that any Promissory Note unpaid on March 1st, 1899, to a Loan Society should not be invalid or liable to stamp duty on account of certain causes, including the fact that the note had been given as a renewal in whole or part; that the borrower was non-resident in the Society's district; that the surety for the repayment of the loan was at the time a borrower; that the original loan had exceeded £10; that interest or fines in excess of the authorized amount had been charged, etc. In their Report for 1900 the Board said that the effect of this legislation had already secured satisfactory results. In this year, again, the Board found itself forced to sell a portion of its Stock.

Unfortunately a new source of trouble in connection with the legal position of the Societies in regard to borrowers soon arose. In their Report for 1902 the Board pointed out that much confusion and imminent risk to the holders of Loan Fund debentures in many districts had been caused by a decision of the King's Bench* to the effect that the Act of 1900 must be construed as regards limitation of time for instituting legal proceedings by the tenth Section of the *Petty Sessions (Ireland) Act*—and that summonses purporting to be issued under the Act of 1900, above referred to, could have been properly issued *only* within six months immediately following the date of that statute.† This decision naturally created a very serious state of affairs. The High Court of Appeal confirmed the decision of the King's Bench in the matter. The Board estimated that the amount for the recovery of which legislative powers were needed was about £45,000. On various occasions Bills dealing with the situation were introduced into the House of Commons, but were withdrawn for different causes.

Legislation of 1906 extending time for taking proceedings.

221. Finally, in August, 1906, the Act of 6 Ed. VII., c. 23 was passed, amending the Act of 1900, and facilitating the recovery of moneys due to Loan Fund Societies by extending the time for taking proceedings under the *Petty Sessions (Ireland) Act*, and in various other ways. Under this Act and that of 1900 a considerable portion of special arrears due to Societies in the North of Ireland was recovered.

REPORT OF VICEREGAL COMMITTEE OF 1912.

222. The Board in their subsequent Reports continued to urge upon the Government the necessity for supplementing their income by a grant from public funds, and for increasing their inadequate powers. As a result of these representations, His Excellency the Lord Lieutenant, as we have already stated, appointed in January, 1912, a small Committee to inquire into the financial position of the Loan Fund Board. See para. 193.

We take the following extracts from their Report‡ to His Excellency:—

"Mr. Scarr, the Inspector, ascribes the decay to the facilities afforded to borrowers consequent on the multiplication of branches of Joint Stock Banks throughout the country, coupled with the want of elasticity in loan fund proceedings due to necessary observance of statutory provisions, and, while making due allowance for any effect that the Commission of 1896 may have had for the reasons adverted to in the Rev. Mr. Irwin's statement, we are disposed to concur in Mr. Scarr's view.

"In these circumstances we are of opinion that the time has now arrived when it has become not only advisable but necessary to determine whether the Loan Fund Board can continue to exist under the conditions of the country as altered since the inception of the Board in 1843. The Board's annual reports urge that unless a substantial increase of income can be secured they cannot continue to carry on their work without a further sacrifice of their invested capital. Mr. Irwin states that only £2,000 capital remains between the Board and bankruptcy, and the Board therefore ask for a Treasury grant of £500 a year. It is clear that this sum, if available, would all be required to provide salary, travelling, and personal expenses for an additional Inspector, who would act as 'Organizer'; for enabling the existing Inspector to devote a good deal more time to inspection; and for increased clerical allowances at Headquarters.

"We regret, however, that we are unable to recommend that the Loan Fund Board should be placed on the annual Parliamentary Estimates, or that Parliament should be asked to vote a capital sum, as the circumstances which in 1843 rendered the constitution of the present Board advisable appear to have become largely modified, if not, indeed, wholly changed."

**Atthill v. Woods*. (New Ir. Jurist, 5 Decr., 1902.)

†*Sixty-fifth Report of Loan Fund Board* [Cd. 1512-1903], p. 4.

‡*Report (dated 11th March, 1912) of the Committee appointed by His Excellency the Lord Lieutenant of Ireland to inquire into the financial position of the Loan Fund Board of Ireland.*

SCOPE OF PRESENT INQUIRY INTO LOAN FUND SYSTEM.

223. Having thus given, as far as seemed necessary, an historical sketch of the Loan Fund System, we proceed to deal with the existing position of the Loan Fund Board and of the local Societies. From the evidence we have received at our Inquiry we have no reason to believe that the previous abuses and irregularities still exist—at least to any appreciable extent—in the present Societies. Improved inspection has undoubtedly worked a beneficial change in the system, and some Societies are, in spite of their limitations, doing a fair amount of good in their locality. It is natural also that the soundest and best managed should out-live the more defective Societies.

But we think it well to make it quite clear that the object of our Inquiry into the Loan Fund system was not the same as that of the Committee of 1896. That Committee was appointed to inquire into the working of the Societies, the keeping of the Rules, and the best means of remedying frauds and abuses. On the other hand, your Committee were mainly concerned with the general question as to how far the Loan Fund system (regarded as one of the existing methods of supplying rural credit) is adapted to the requirements of the agricultural classes. We therefore invited to our sittings officers of various Loan Fund Societies, these invitations in most cases being accepted. These officers gave us very full and valuable information in regard to the constitution and working of the Societies, and made it clear that there is a good deal of variety in the methods adopted within the terms of the Acts of Parliament by the local Committees. We made no attempt, however, as the Committee of 1896 did, to examine on the spot the books, organisation, and working of any Loan Fund Societies, with a view to discovering defective management or graver abuses. We were at an early stage of our Inquiry convinced of the fact that the present system, even if worked in strict accordance with the Acts of Parliament and the Rules, is essentially a defective one. But although having no reason to suspect that irregularities exist, we are not in a position to report definitely on this point.

On the whole, we are satisfied that the Loan Fund Board, with its limited resources for inspection, has in recent years done all in its power to supervise the Societies, and that it would be difficult for serious irregularities to escape the notice of the competent Inspector of the Board. We have treated the subject of the Loan Fund system chiefly in relation to its applicability, or otherwise, to the rural credit requirements of the country, while not losing sight of the fact that in some respects these needs and those of the artisan and working population of the towns are dissimilar. As will be shown, however, the majority of the borrowers from most Loan Fund Societies belong to the agricultural and not to the artisan population. We have endeavoured to ascertain whether, on a review of all the facts, there seem to be any sufficient grounds for a continuance of the Loan Fund system.

See paras. 254,
255.

MODEL RULES ISSUED BY LOAN FUND BOARD.

224. There will be found reproduced in the Appendices* the model Rules for the Management of a Loan Fund Society, now issued by the Loan Fund Board as suggested Rules for adoption by Societies. Societies are at liberty to make changes in these Rules, with the sanction of the Loan Fund Board, provided that questions of principle and legal enactments are not thereby involved. During our Inquiry we have received evidence on behalf of numerous Loan Fund Societies, and seldom did we find that the practice in regard to the details of the working of any two Societies was precisely similar.

The objects of a Loan Fund Society are in the Rules set forth as follows: "To grant small loans (of not less than £1 nor more than £10), at a moderate rate of interest, to industrious individuals, and to encourage thrift by receiving moneys on deposit." Honorary Officers (including the Treasurer, the Secretary, and Trustees), and debenture holders are members of the Society. The affairs of the Society are conducted by the Treasurer and by a Committee of members elected at the Annual General Meeting. No salary is to be paid to any member, the only paid officer being the Clerk.

Capital of Societies.

225. The necessary capital may be raised by receiving moneys on debenture or on deposit account, at a rate of interest approved by the Loan Fund Board. Deposit cards are issued for all sums of less than £20, and debentures, signed by the Treasurer and two Trustees, for all sums of £20 and upwards. Three months' notice is required before a sum lodged

* See Appendix 18 to Minutes of Evidence.

on debenture can be withdrawn, and two weeks' notice prior to withdrawal of a sum lodged on deposit card, provided that nothing in this Rule may prevent a deposit or debenture being paid in full at any time that may be convenient to the Society to pay it. Debentures are transferable only in the manner laid down in the thirty-fifth Section of the Act of 1843. The Model Rules also stipulate that holders of debentures exceeding £100 shall withdraw the surplus above £100 on being required to do so by the Committee or by the Loan Fund Board; if a debenture holder refuses to do as requested, interest on the surplus ceases to be payable.

"No application for a loan shall be considered or entertained until the last instalment and all fines or other charges on any previous loan made to the same applicant have been wholly repaid." This Rule aims at prohibiting the renewals of loans, a widespread practice which, as we have shown, was from the beginning one of the chief causes of disaster to the whole system.

Paras. 212,
217-221.

Weekly Loans.

226. The Loan Fund Act of 1843 deals with the system of *weekly* loans, and authorises a rate of discount on such loans not exceeding 4*d.* in the Pound for twenty weeks, the principal to be repaid by instalments as the Trustee or Manager sees fit. Dealing with this class of loan, the Model Rules lay down certain limitations on fines in the case of defaulting borrowers, and state that if the loan is to be repaid by weekly instalments, a sum not exceeding 4*d.* in the Pound shall be retained as *discount* at the time of issuing the loan. The Rules also adopt the principle of deferring for two weeks the consideration of an application for a new loan from a borrower who has been fined 3*d.* in the Pound during the twenty current weeks of his last loan. The Committee of 1896 reported that this beneficial Rule as to deferring consideration in the case of a defaulting borrower had been wholly disregarded, save by a few Societies. That Committee believed that its rigid enforcement would be much more efficacious than the infliction of fines in obtaining punctual payment of instalments, a view in which we fully concur.

Monthly Loans.

227. The second and more generally adopted system is that of monthly loans, dealt with by Section 28 of the Act of 1843, which empowered a Loan Society, with the authorisation of the Loan Fund Board, to advance its funds at interest not exceeding 1½*d.* per £ per month, repayable by instalments at intervals of not less than 27 days. The Rules state:—

"All deserving Weekly Borrowers having been accommodated, the Society shall be at liberty to issue the remainder of its capital in loans not exceeding £10, for periods not exceeding twenty weeks, to be repaid in sums of one or more pounds, at the option of the Borrower, charging interest on each pound when repaid, at a rate not exceeding 1½*d.* per month (of four weeks) for the time it has been in the Borrower's hands, and keeping a separate account of such loans.

"At the expiration of the twenty weeks, if the whole loan or any part thereof remains unpaid, in addition to the interest, one halfpenny per month may be charged on each pound as repaid, but only from the time that the loan expired, and no other fine shall be charged on these loans."

Although these Rules give the preference to weekly borrowers, the evidence given before your Committee would go to show that in the majority of cases the Societies have adopted, to a very large extent, the monthly in preference to the weekly system. It is obvious that the method of weekly repayments is very inconvenient in the case of rural borrowers residing at a distance from the Society's office.

Income of Board chiefly dependent upon sale of Documents.

228. The Rules entitle the Society to charge borrowers as follows: 1*d.* for an application form, borrower's card, or default notice, and 2*d.* for a promissory note, with certain alternative arrangements. All such documents must be obtained from the Loan Fund Board. The income of this Board thus depends entirely upon the proceeds of the sale of these documents, and upon the interest of capital sums thus obtained in the past. It would have been difficult, in our opinion, to devise a method of supplying the Board's annual income more open to serious objections from almost every point of view.

See paras. 267-9.

Disposal of Profits and Reserve Fund of Societies.

229. A further Rule lays down that after the net profit for the year has been declared, it shall be added to the fund for the security of the debenture holders, provided that the profits accumulate to a sum sufficient to satisfy the Society that the charges made to borrowers for promissory notes, cards, or application papers can be abolished, or the discount

on loans reduced without loss. Any or all of these changes may be carried out if approved by a three-fourths majority at a general meeting ; or such residue of profits (after retaining a tenth for the security of the debenture holders) may be appropriated to the support of any dispensary, hospital, or infirmary in the Society's district or county, or for such other charitable purpose as the Society thinks fit, with the assent of the Loan Fund Board.

Lack of power in Board to enforce adoption of improved Rules.

230. The existing Model Rules issued by the Loan Fund Board are the result of several revisions by the Law Officers of the Crown. In 1896 the Board issued a code of new Rules, based on the recommendations of the Committee of that year. Out of 104 Societies then existing, 5 accepted the Rules in the form submitted to them, 72 accepted them subject to considerable modifications, while 27 declined to adopt them. The Board stated :—

“ This code has been very generally objected to on several grounds, of which two may be mentioned— (1) the impossibility, having regard to the risks of the system, of obtaining, or retaining, capital for lending if the rate of interest were reduced as proposed to a maximum of 4 per cent. ; (2) the impossibility of obtaining, or retaining, experienced officers at the maximum to which societies were asked to reduce the cost of management. Whatever may be thought of the second objection, it must be admitted that the risks forming the basis of the first are, in the absence of suitable legislation, considerable.”*

The Board also pointed out that they had no power under their Statute to enforce the acceptance of new Rules, and stated that “ although, in the case of several Societies which . . . had persistently broken the old Rules, the Board might have had recourse to dissolution, they refrained advisedly from adopting that extreme measure at present, because it would have involved a disorganisation of existing local machinery, dangerous to the prospect of recovery of outstanding capital.” They also intimated that with the diminished activity in loans and the reduced number of Societies, there was no reason to expect an increase in the sales of forms and that therefore it was tolerably certain that “ the Board at no distant date will be without the income necessary to pay the expenses requisite for the proper discharge of their duties and the salaries of their staff.”

Vital importance of effective supervision and control.

231. In the year 1902 the Board thought it desirable to issue a further revised set of rules to the Societies. Several Societies, we are informed, adopted these rules, either in whole or in greater part, but others did not see their way to do so. It is needless for us to emphasise this defect in the Loan Fund system, which renders the Board unable, except by dissolution of Societies, and then only under certain circumstances, to enforce in any way those improvements in management which they may consider advisable.

In referring to this subject Dr. J. R. O'Connell, a member of the Board, stated at our Inquiry :—

“ I also want to point out that the Loan Fund Board has no power to reform a badly administered or moribund society ; it has only power to compulsorily wind it up, which means expense, a considerable amount of costs, and a possibility of loss to the debenture-holders. Section 45 of the principal Act shows that if the Loan Fund Board finds that any Loan Society has not adhered to its rules, or has applied any of its profits or funds, or done any matter or thing contrary to the provisions of the Act, the Loan Fund Board may withdraw the certificate, and, after certain notice, &c., finally appoint a receiver, who can wind up the Society ; but there is no power in the Board to adopt any course with a view of the reorganisation of a Loan Society, or putting its affairs into better hands, or securing better management. The only power they possess is one of absolute winding up. Now, it is quite possible that many societies which are working unsatisfactorily could be put on a better basis if the Board had power to take over the working for some time while its affairs were being investigated, and a new committee of management and officers appointed.

Q. “ The compulsory winding-up of a Society means a hardship to small borrowers?—A. Yes ; because it means the compulsory calling in of the money, and in some cases it involves losses to debenture holders.

Q. “ Whereas if your Board had power to reform the Society, things might have gone on, and new life been put into it ?—A. Yes. In some cases where a Society decays it is because it has fallen into wrong hands, or the people who started it have withdrawn, and others come in, and there has been apathy, and if new blood were infused it might come right again.

Q. “ Would it not be open to you to use the threat of winding up as a lever, and to say to the Society, ‘ If you don't do so-and-so, we will be obliged to wind you up ’ ?—A. That has been repeatedly done, and sometimes with beneficial effects, but these people in the country know the Act of Parliament better than we do, or quite as well. In the North of Ireland, especially, they know that we have no power.”

232. The difficulty of devising a sound and effective system of control, and supervision of local Societies is a very real one, and has been met with also, as we have shown, in the case of Agricultural Credit Societies in Ireland. We have fully dealt with this vital matter in the Section of our Report—“ Inspection and Audit of Credit Societies,” and need only say here that the evidence we have received in regard to the working of the Loan Fund system strongly accentuates, in our view, the paramount importance—especially in the case of small local bodies dealing with the receipt and lending of money—

* *Sixtieth Annual Report of the Loan Fund Board* [C. 8920-1898], p. 4.

of proper arrangements for independent supervision, combined with some effective method of enforcing needed improvements without having recourse to the extreme step of winding up the defective Society. In some cases local apathy may be so great that even the threat of final dissolution of the Society would have little or no effect: but we believe that in the great majority of instances powers short of winding-up could be utilized with advantage to bring about improvement. In the case of an unsatisfactory Credit Society we have suggested that the threatened immediate withdrawal of a Bank overdraft, with the certain inconvenience and possible loss thereby entailed to all borrowers from the Society, would usually prove a useful stimulus to reform. The Loan Fund Board have from the beginning been admittedly quite powerless, save by the threat of compulsory winding-up, to bring about improvement in a Society which rejects advice.

See paras. 646-9.

General lack of interest shown by Committees of Societies.

233. We have no reason to think that a serious defect animadverted upon by the Committee of 1896. *i.e.*, the general lack of interest shown by the Committees of Loan Fund Societies in the working of these organisations, has in any way diminished since that date, although amongst the fifty-one existing Societies there are, we are aware, some exceptions which serve only to prove the rule.

Mr. F. C. Scarr, the Inspector of the Board, who has had almost fifteen years' experience in that capacity, dwelt upon this defect in the system:—

“The weakest spot about the whole business is the local management. The members will not attend, although in the new Rules that were settled by counsel, the Board made an alteration with regard to the weekly attendance, giving a Committee-man power to delegate his attendance to another. It is hard to get them to attend weekly meetings. There are some places where they won't attend at all. I have held inspections and have had no one with me but the clerk.”

508-9.

Q. “What do you think is the cause of the apathy in a matter of this kind that affects them so closely?”
—A. I really cannot say, except that they want to be paid. Some of them say that they come there and that they are not paid for it, and where debenture holders are on the Committee, they ask that the interest on their debentures should be increased to cover their loss of time attending the Committee Meetings.”

Rev. J. C. Irwin, B.D., a member of the Board, suggested that in order to encourage the attendance at Committee Meetings a small remuneration for out-of-pocket expenses should be paid to the members and Treasurer. He said:—“It is difficult to get unpaid members of Committees to attend regularly.” The same proposal was made to us in relation to the Committees of Credit Societies; and there is doubtless much to be said for it from some points of view. In many Credit Societies in Germany sums of from 6d. to 2s. are allowed to members for each sitting attended, the payments to individuals amounting annually to from 10s. to 30s. The tendency to give such remuneration is also apparently on the increase in Germany.* We have not, however, seen our way to recommend the adoption of this plan in the case of Irish Credit Societies; nor do we feel inclined to favour it in regard to Loan Fund Societies, whether under the present or under the proposed reorganised system. Such payments, although individually small, have a habit of amounting to a considerable sum when regularly paid to a fair number of persons.

6903.

It should not be impossible so to arrange the regular dates for Committee Meetings, say, for fair and market days, as to lessen the travelling expenses of members. There is probably a stronger case for the suggested refund of out-of-pocket expenses in the case of a Loan Fund Society than in that of a Credit Society, for the area of operations of the former is, as a rule, much wider. If our recommendations be adopted, however, this area will in future be considerably diminished so as to correspond with that of a Credit Society. The sanction of payments in refund of expenses would, we fear, be so liable to abuse, the margin of profit admitting of such expenditure is usually so small, and the encouragement of the spirit of unpaid and voluntary service is also so eminently desirable, that we consider the balance of advantage to be distinctly on the side of the present system under which no monetary payments are made save to the Clerk of the Loan Fund Society. The refund of expenses to Directors of Companies can, we admit, be plausibly quoted against our view; but in many respects the seeming analogy does not hold good.

Para. 273

Lack of Security for Depositors and Debenture Holders.

234. A very serious defect in the Loan Fund system is the absence of any real security for depositors and debenture-holders. By the Act of 1843 it was provided that no person signing a debenture should be personally liable save by express agreement:—

“And be it enacted that no Treasurer, Trustee, or other officer of any Loan Fund Society subscribing a debenture shall be individually responsible in person or property for the payment of the same, or of any

*Report on Agricultural Credit and Co-operation in Germany, p. 93.

interest thereon, but such debenture shall be a charge on the capital and property of the Society alone, unless such Treasurer, Trustee, or other officer shall, in the instrument, or by writing at the foot or on the back thereof, declare his or their willingness to be liable in person or property for the specific sums so guaranteed."*

There has been no case, as far as we can learn, in which the officers of a Society have voluntarily signed an undertaking making themselves personally liable for the payment of debentures and of the interest on same. The Inspector of the Board informed us that the debentures were "the only security that the debenture-holder has for his money, together with the proper working of the Society." When asked who would be responsible to the depositors for the return of their money if the officers failed, he replied:—No one that I am aware of."

F. C. Scarr,
475-77.

6713-7.

The following is an extract from the evidence of Dr. J. R. O'Connell upon this point:—

Q. "These debentures are signed by the Treasurer?—A. Yes; and by a local trustee and the clerk. There is a Form printed in the Schedule to the Act.

Q. "The Board itself takes no responsibility?—A. No; neither do the local trustees. They merely act as officers of the Society.

Q. "It is merely the capital of the particular Society?—A. Yes; that is charged with it.

Q. "So the local people who sign the document have no responsibility?—A. They have no personal responsibility. There is a specific section in the Act providing that no Trustee shall have any personal responsibility.

Q. "That makes it rather easy?—A. Yes; Of course, it had the advantage of facilitating the establishment of these societies, because local people might be chary if they thought they would be involved in a personal liability."

6786-88.

This witness also pointed out that Section 44 of the Act of 1843 required a Society annually to reserve a sum, not less than one-tenth of their clear net profits, to form a fund for the security of the debenture-holders. He added: . . . "I would wish to see this section amended by rendering it obligatory on any Loan Fund Society to apply all its surplus profits, or, at any rate, a very large proportion of them—75 per cent. at least—to forming a reserve fund to meet these debenture-holders, and to apply the money in paying off the debenture-holders, so as in the first place to clear out and pay off the debenture-holders, and then to apply any surplus funds in reducing the rate of interest, and otherwise increasing the usefulness in their own sphere of the Loan Society. I do not think that the application of so large a surplus of the profits for charitable purposes, or for purposes outside the objects of the Loan Societies themselves, is a satisfactory arrangement. These Societies should make a contribution to our Board that would enable us to carry on our work."

Security practically nil if Society be improperly managed.

16866-9.

235. On this important question of security the Very Rev. J. Delany, P.P., Treasurer of the well-managed Kiltegan Loan Fund Society, explained that the members of the Society do not incur any financial liability to the depositors, but that "they certainly incur a moral responsibility by reason of an office of trust voluntarily undertaken." The depositors have "the aggregate security of all borrowers and their sureties, as well as the bonds of the Treasurer and the Clerk."

Q. "If there were losses from loans, what security would the depositors have?—A. First the assets of the Society, where the Society has been properly worked, and the promissory notes properly executed.

Q. "Assuming the Society was not properly worked, what is the security?—A. If the Society had been worked improperly, the security would be almost nil."

The following is an extract from the evidence of Dr. T. O'Connell, Treasurer of the Fethard Loan Fund Society, County Tipperary, in regard to the safety of a Society's funds:—

18201-05.

Q. "What security do you offer the depositors?—A. None whatever, but our personal responsibility. As a matter of fact they could not sue us personally.

Q. "You are not personally liable?—A. No.

Q. "The only security was that they had confidence that the management would be honest?—A. Precisely.

Q. "And they have not been deceived yet?—A. The statistics look pretty fair.

Q. "Have they any security at all?—A. None whatever beyond what I say. All the loans are looked into every year by an Inspector from Dublin, who sees that the work is carried on properly. Of course, each borrower has two securities, and they will surely be able to pay the amount between the three of them."

236. It is abundantly clear from the evidence given by these and other representatives of Loan Fund Societies that the fact of there being no security whatever for debenture-holders and depositors beyond the proper management of a Society, the existence in some cases of a reserve fund, and any security obtained from the Treasurer and Clerk, is fairly widely recognised by those responsible for the management of the Societies. But we much doubt whether this knowledge exists to anything like the same extent amongst the rank

*See 6 and 7 Vic. c. 91, s. 36.

and file of those who have entrusted their money to the Societies. We need not enlarge upon the striking contrast which exists between an institution of this type, in which no member of the Committee can be legally made liable for the debts of the Society, and an organisation founded on the principle of an Agricultural Credit Society, in which not only all the members of the Committee, but all the members of the Society are each of them individually liable either for the total debts of the Society (under unlimited liability) or for a specified sum (under limited liability). There is little doubt but that some of the Loan Fund Societies were originally formed simply as a financial speculation on the part of the managers for their own benefit and that of their personal friends,* the Act of Parliament affording every encouragement and facility for action of this sort.

See paras. 303-358.

IMAGINED GOVERNMENT SECURITY FOR DEPOSITORS.

237. One of the main causes of the confidence placed by depositors in Loan Fund Societies, many of which disastrously failed, has been the mistaken impression that Government security was afforded. The evidence we received on this point was conclusive: we have space for only a few brief quotations.

See para. 208.

The following is an extract from the evidence of a County Tyrone Magistrate:—

Q. "You were a debenture holder?—A. I was; I lost nearly £100 myself. All I got out of the whole thing was £12, and I never got a farthing interest. I deposited that money in 1896, and my interest at five per cent. would be £90, and I never got a penny of it.

J. Owens, J.P.,
13534-37.

Q. "Out of the capital you got £12?—A. Yes.

Q. "When you placed your money in this Society, did you think it was under Government security?—A. Most certainly; so did hundreds, I might say thousands, of others.

Q. "That misled you?—A. Yes; and it misled others. It looked very like Government security, because we knew that there was a Government inspector appointed by the Lord Lieutenant, and we took it for granted that it was under Government security, but we found we had no security whatever."

Another Tyrone magistrate, and a Receiver for several defunct Loan Fund Societies, stated:—"The people who deposited thought they had Government security. Their heads were turned with the British Coat of Arms. . . . If these Societies could be established with Government security to inspire confidence in the people, I believe they would do good." As communications were sent to Societies by the Loan Fund Board from its address at "Dublin Castle," the widespread but erroneous impression among depositors that this Board was a regular Department of the State, and that in some way Government security or supervision existed for the safeguarding of the funds of the Societies, was to a large extent inevitable. In dealing with the subject of deposits in Credit Societies we have indicated how adversely the past failures of Loan Fund Societies have affected the prospects of successfully starting Credit Societies in the districts which have thus suffered. Even with the definite State responsibility for the supervision of Credit Societies advocated in our Report, the progress of establishing such Societies in these particular areas will probably be slow—a circumstance hardly to be wondered at.

T. W. Stafford,
J.P., 14174-14233.

See para. 381.

UNSATISFACTORY CONSTITUTION OF LOAN FUND SOCIETIES.

238. A most unsatisfactory feature of the Loan Fund Societies is found in their constitution, and more especially in the arrangements for the appointment of Committees. The Act of 1843 provides that "any number of persons" may lawfully "form themselves into a Society in Ireland in any district or place in which it shall be proved to the satisfaction of the said Loan Fund Board that such Society is required.† The Model Rules issued by the Board provide that—"whereas the following persons have formed themselves into a Society under the said Act . . . and have made the following Rules for the better government and guidance of the said Society . . . the first members of the Society shall be the persons above-named, and they shall continue to be members until they resign, or shall be called upon to resign by the Loan Fund Board."‡ Honorary officers and all debenture-holders should under these Rules also be members, but the evidence shows that this is not the universal practice. In one Society, for instance, whose Treasurer gave evidence at our sittings, only a few of the thirteen debenture-holders or depositors are members of the Society.

Dr. T. O'Connell,
18192-99.

The following extracts are further proof of the very unsatisfactory method of electing Committees, even in fairly successful Societies:—

D. Kennedy,
17198-203.

Q. "How is your Committee appointed?—A. They are elected at an annual meeting.

Q. "Is there a large attendance at the annual meeting?—A. No; perhaps five or six.

*See *Report of Committee of Inquiry* of 1896. (C. 8381-1897), p. 23.

†6 and 7 Vic., c. 91, Section 9.

‡See Rules 1 and 2, Appendix 18 to Minutes of Evidence.

Q. "The same people?—A. Yes.

Q. "Are they debenture-holders?—A. Mostly.

Q. "Are there any others than debenture-holders members of the Committee?—A. Yes; there may be five or six members.

Q. "I suppose they are the people who attended the original meeting?—A. Yes."

Another illustration is from Ballyjamesduff Society, one of the best in Ireland:—

Q. "How is your Committee of nine appointed?—A. Well, they elect themselves, I suppose. Two members of the Committee propose one, and so on.

Q. "I suppose the Treasurer is appointed in the same way by the Committee?—A. Yes.

Q. "It is simply a system of co-option?—A. Yes.

Q. "Is not there an annual meeting?—A. Yes.

Q. "Who attends that meeting?—A. The full Committee only."

In some Loan Fund Societies not only are all the debenture-holders associated with the management of the Society, but, as in the case of the Kiltegan Society, "all the representative persons in the district were taken into the Society—the clergymen, County Councillors, and others." In many cases the election of Committees seems to consist merely in a simple process of co-option by the existing members to fill vacancies as they occur, the tendency being, as one witness admitted, to create a sort of family concern. Here again we need hardly emphasise the contrast between this system and that existing in Credit Societies, where the general body of members annually elect a Committee. The apathy of Committees in the performance of their duties under the Rules is, unfortunately, a defect too frequent in both classes of Society.

PERIOD OF LOANS AND METHODS OF REPAYMENT.

239. We have already described the two classes of loan advanced by Loan Fund Societies to borrowers, *i.e.*, those known in the Rules as "weekly" and "monthly" loans. Neither of these terms is used in the Acts of Parliament relating to the Loan Fund system; they appear to be misnomers, for there is no provision, either in legislation or in the Rules, compelling repayment of advances by weekly or monthly instalments. The only reference to "week" or "month" in Sections 27 or 28 of the Act of 1843 is in the description of the method of calculating the rate of discount or interest.

"Weekly" Loans under Section 27 of Act of 1843.

240. Section 27 provides for money being advanced at a rate of discount "not exceeding 4*d.* in the £ for twenty weeks," repayable "by instalments at such time or times, and in such proportion or proportions as the said Trustees or Managers may think fit." There is clearly nothing in this Section to prevent the loans being made for any length of period, say 40 weeks, or 12 months, provided the rate of discount be at the rate of 4*d.* for every 20 weeks. Thus an advance of £10 could be made for 40 weeks, subject to a total discount of 6*s.* 8*d.* for the period. Nor need the instalments be paid weekly, fortnightly, or at any specified interval; the selection of the interval is left entirely to the Trustees or Managers. The spirit, rather than the letter of the Act, undoubtedly favours repayment by instalments, but there seems nothing illegal in allowing the whole loan to remain with the borrower until the end of the period for which it is lent. Convenient as weekly or fortnightly instalments may be for regular wage-earners, they are quite unsuited to the requirements of agricultural credit. We understand that the repayment of monthly loans by instalments is now almost non-existent in the Societies.

We regret that the Rules issued by the Board do not allow more latitude in respect of the period for which advances might be made. Many of the Loan Fund Society witnesses at our Inquiry seemed to be under the impression that legislation had laid down the maximum limit of 20 weeks or 5 months for loans, this mistake being presumably due to the restrictions inserted in the Rules of the Board. Frequent complaints seem to have been made by borrowers as to the shortness of the term for loans. The Board's Inspector stated to the Vice-Regal Committee of 1912—

"The general complaint that I find in the country with regard to these Loan Funds is that the local Banks now deal with very small loans and practically the same people, and that our system of lending is that the money must be paid within five months, and then if they don't pay it within five months, they must be taken to Petty Sessions, and there is no power of renewal; but the Banks will renew. They will lend £5 or £10 to a person if he brings in a neighbour to sign the bill, and when time is up for payment they will probably take a few pounds off it, and renew the bill. We are not permitted by Act of Parliament to do that. This is the general complaint, I hear. The Loan Funds being thus restricted under the Act, it militates against them working so successfully as they did, before the Banks began to establish their branches throughout the country."*

* Minutes of Evidence, *Report of Vice-Regal Committee of 1912*, p. 9.

F. J. Lynch,
12978-802.

16883.

G. Arnold, J.P.,
11284.

Paras. 226, 227.

Para. 19

Weekly repayments unsuited for Agricultural Credit purposes.

241. The usual method of repayment of "weekly" loans is at the rate of 1s. per £1 per week. This means that the borrower has the use of £1 for only one week (and not even that, for 4d. is deducted as discount), 19s. for one week, and so on; for the full twenty weeks he has only the use of 1s. Several witnesses pointed out to us that this type of loan, both as regards the period and the method of repayment, is peculiarly unsuited for farmers, who, as shown elsewhere, constitute the majority of those who resort to Loan Fund Societies for advances. The system is more adapted to the needs of persons in receipt of regular weekly wages, but even in their case the necessity to commence at once the repayment of the principal of the loan must prove at times very inconvenient. The "amortisation" principle which is so convenient for long-term loans for extended periods of years is not similarly advantageous for short-term loans.

See paras. 254, 255.

See paras. 823-4.

The rate of interest on these "weekly" loans, when repaid weekly, amounts to £8 5s. 6d. per cent. per annum, a rate which compares unfavourably with that charged by Credit Societies, or even by the Joint Stock Banks. The value of money, it should be remembered, has considerably altered since the discount rate for the Loan Fund System was fixed by legislation; what might have been a moderate rate seventy years ago can hardly be considered so at present. In some cases, however, these twenty-week loans are repaid by five monthly instalments of 4s. each; in such instances, the discount of 4d. in the £1 is equivalent to interest at the rate of £7 4s. 10d. per cent. per annum. This is the rate charged, for instance, by the Antrim Loan Fund Society.

That much good can be done by these loans, even to agricultural borrowers, is evident from the experience related to us by various witnesses. The Clerk of the Antrim Society stated:—"One woman came to us and borrowed £10. She bought a cow. She paid the monthly instalments from the milk of the cow. She came in at the end of five months and paid the last instalment, and said, 'This is the last instalment, and I have repaid the loan through the milk of the cow; now I have the cow free. Only for the £10 I would never have had the cow.'"

J. Young, 15816.

We have found a considerable difference of practice in the various Societies in regard to the types of loan and methods of repayment. Thus the Treasurer of the Newmarket Society stated:—"They are all weekly loans. I don't know of a single monthly loan"; while the Treasurer of the Kiltegan Society said:—"It is only a rare time we have a weekly borrower. We are working altogether on the monthly borrowers, who pay at the end of the twenty weeks." This latter, it will be noted, is one of the Societies in which the loans are not repaid by instalments, but at the end of the period.

Hon. H. G. Lysaght, 4326.

Very Rev. J. Delany, 16930.

Another similar case is that of the Abbeyleix Society, the Treasurer of which informed us:—"The rule is that the loans must be granted monthly, but they don't pay by the month. They have been accustomed to the old Loan Fund that was there for years, and we could not get them to pay monthly. They pay us in a lump sum when they sell their pigs, or cattle, or corn." Repayment by weekly instalments is more frequent, as might have been anticipated, in urban than in rural districts, and also in Societies where a large proportion of the borrowers are agricultural labourers.

D. Kennedy, 17145.

Large portion of Capital of some Societies locked up in Government Stock.

242. We may add, in passing, that the fact of the Antrim Society having £3,000 of its capital of £4,020 locked up in Government Stock, owing, according to the Clerk's evidence, to there being no demand for its utilisation in loans in the district, is somewhat remarkable, and would seem to point to the system being, on the whole, unsuited to the needs of the people. Indeed the witness admitted this when he said in explanation:—"One reason is that it is easy to get money out of the local Banks, and the one security will do them. They also look upon our bank more or less as a charity bank, and it is more popular to go into the other Banks. A certain class would rather borrow from the Joint Stock Banks than from us. It is easier to get the loan, and they are charged, I think, 5 per cent." Similarly the Londonderry Society had, we learned, £1,700 of its capital of £3,400 invested in Government Stock, owing to lack of demand for loans. Speaking of the dearth of applications for loans, a farmer in Co. Antrim said to us:—"How can a farmer come in every month and pay down money who has not got it? They want you to come in every month, or if not, they will fine you."

15839-40.

J. A. Williams, 13792-8.

S. Shaw, 15994.

"Monthly" Loans under Section 28 of the Act of 1843.

243. In addition to the loans advanced at a discount of 4d. per £1 for twenty weeks under Section 27, the Act of 1843 (Section 28) introduced a new class of loan, the so-called "monthly" loan, authorising a Society to issue a limited portion of its funds in loans not exceeding £10, at a rate of interest not exceeding 1½d. per £1 per month, provided

Para. 203.

there be not less than 27 days between the repayment of each instalment. It will be noted that there is no reference whatever to the necessity of repayment by monthly instalments ("month" in the Loan Fund Rules, means a "lunar month" of 28 days). It was this Section 28 which was obviously misinterpreted by the Loan Fund Board in their Circular of March, 1845, to the Societies*; the word "discount" being read instead of "interest," and the nominal instead of the actual period being taken. In effect, the Board authorised Societies to charge at the rate of £13 11s. 7d. (instead of £8 2s. 11d.) per cent. per annum for a twenty weeks' loan, although the Act of 1843 by Section 29 made the previous rate on the "weekly" type of loan, £12 8s. 3d. per cent., illegal.

J. J. Perceval,
1151.

This matter was brought under our notice during the Inquiry, but as it was fully reported upon by the Committee of 1896, and as the rate of £13 11s. 7d. appears to be now charged by only two Loan Fund Societies (*i.e.* Kanturk and Mallow), and is not authorised by the Model Rules issued by the Board, we do feel called upon to do more than refer to it as an illustration of the unfortunate mistakes, legal and administrative, from which the system has from time to time suffered.

Suggestions of Committee of 1896 in favour of extending period of Loans.

244. The Committee of 1896 stated that "while as a rule the weekly instalments are fairly well paid, on the other hand the monthly instalments are either very irregularly repaid, or not repaid at all, the loans being renewed for the full amount. It was represented to us at several of our inquiries that loans repayable by instalments either weekly or monthly are not suited to agricultural borrowers, that in fact the return from the loan does not come in until seven or eight months after the loan has been expended, and that, consequently, it is hopeless to expect that agricultural borrowers from the Loan Societies, who are usually 'the small cottier' class of farmers, can repay the loans by monthly instalments. Section 28 of the Act, we think, affords an opportunity to the Loan Fund Board, of instituting a system whereby Loan Societies may be authorized to advance sums not exceeding £10, repayable by instalments at periods of two, three or four months."†

Apparently it was the very irregular repayment of two monthly, as compared with weekly, instalments: the fact that in most Societies the entire capital was advanced in monthly loans regardless of limitations in the Rules; and the knowledge that in any case, loans repayable by monthly instalments could be issued under Section 27, which influenced the Committee in recommending the suspension of operations under Section 28, and made them hesitate to advise the immediate adoption of their proposal that Societies should advance money for a longer term than five months, repayable by instalments at prolonged intervals. In their Model Rules‡ the Board imposed the limit of twenty weeks for the loans made under Section 28, but the Act itself contained no such limit of time.

J. J. Perceval *
1136

We cannot but think that the Loan Fund Board would have been well advised to institute before now the experiment tentatively suggested by the Committee of 1896 as desirable in the future. Such a step would probably have gone far to make their loans more in consonance in many features with the requirements of agriculturists, and would have greatly reduced the disparity which exists between the facilities afforded to farmers by Loan Fund Societies and those offered by Co-operative Credit Societies. Some Loan Fund Societies have, of their own accord, taken steps in the direction suggested. Thus the Society at Moyne seems to have established a system of loans for 8 months; while in most Societies the loans have been made repayable only on the completion of the full period (5 months) of the loan.

RATES OF INTEREST CHARGED BY LOAN FUND SOCIETIES.

245. Not only in regard to length of period of loan authorised under the Rules, and in arrangements for repayment do the Loan Fund Societies compare very unfavourably with Credit Societies; if the rates of interest charged to borrowers be compared, the advantage equally lies with the latter form of organisation. The following are some of the more usual rates charged by Loan Fund Societies:—

CHARGES MADE.	Rate of interest per cent. per annum.		
	£	s.	d.
(a) Discount of 4d. on loan of £1 for 20 weeks, repayable in weekly instalments	..	8	5 6
(b) Interest at 1½d. per £1 per (lunar) month	..	8	2 11
(c) Discount of 4d. on loan of £1 for 20 weeks, repayable in (lunar) monthly instalments	..	7	4 10
(d) Discount of 6d. on loan of £1 for 20 weeks, repayable in (lunar) monthly instalments	..	10	17 3
		(charged by 7 Societies)	
(e) Discount of 7½d. on loan of £1 for 20 weeks, repayable in (lunar) monthly instalments	..	13	11 7
		(Charged by 2 Societies).	

*See *Report of Committee of Inquiry*, 1896, p. 15. As far as we can ascertain, this Circular was never actually withdrawn by the Loan Fund Board.

†*Ibid.*, paras. 109–111, 120–1.

‡See Rule 22, Appendix 18 to Minutes of Evidence.

We have met with exceptional instances of lower rates than the above; for example, Moyne, Crichton, and possibly other Loan Fund Societies, lend at $1\frac{1}{4}d.$ a £1 per month (= £6 15s. 9d. per cent. per annum), while Ballyjamesduff Society lends at a discount of $2d.$ in the £1 for five months (= interest of £3 12s. 5d. per cent. per annum). The latter is much the lowest rate charged by any of these Societies, and is rendered possible by the fact that all the large capital (£4,950) is held free of interest. This Society is obviously worked in the interests of its borrowers and not of dividends or salaries. 975, 11207. 517 12932.

The most frequent rates of interest appear to be £8 5s. 6d. per cent. per annum for loans under Section 27. and £8 2s. 11d. for loans under Section 28 of the Act. These rates are over 3 per cent. higher than the charge of 5 per cent. usually made to borrowers by Credit Societies, and higher by 2 per cent. than the charge of $6\frac{1}{4}$ per cent. which we propose as the most satisfactory normal rate for loans issued by Credit Societies. We regret that some Loan Fund Societies should still be charging at the rate of £10 17s. 3d., and even £13 11s. 7d. per cent. per annum, the latter being in force in the Kanturk and Mallow Societies, a rate which seems to be illegal under the Act of 1843. We may add that seven other Societies which formerly charged this high rate have reduced their discount from $7\frac{1}{2}d.$ to $6d.$ in the £1, being equivalent to interest at the rate of £10 17s. 3d. per cent per annum. See para. 243.

Ignorance or indifference of small borrowers as to rates of interest charged.

246. We believe that neither the officers of the Societies nor the borrowers are themselves aware in many instances of the precise rate of interest charged. Several erroneous estimates of the actual rates enforced were furnished to us by officials of Loan Fund Societies. An initial deduction of $6d.$ in the £1 for five months does not, at first sight, appear an excessive charge; it is only a detailed calculation, often beyond the capacity or the inclination of the average rural borrower, which reveals that this rate is equivalent to £10 17s. 3d. per cent. per annum. Similar unblissful ignorance, as we have seen, usually exists amongst small borrowers as to the exorbitant rates charged them by moneylenders. Considering the necessity for making records of each instalment repaid—a task especially troublesome in the case of weekly repayments—we do not think that, on the whole, a rate of $8\frac{1}{4}$ per cent. can be considered excessive; it is sometimes charged by Joint Stock Banks in connection with those small loans which are always proportionately more troublesome and expensive to deal with than larger amounts. But it is nevertheless a high rate when regard is had to the borrowers' interests alone. See para. 136.

The evidence received by us would seem to indicate that rural borrowers do not object so much to the rates of interest charged by Loan Fund Societies as to the inconvenient terms of repayment of loans.

In many cases the value of a loan at a particular time to a needy farmer is so great that the exact rate of interest charged is a matter of little account, when weighed against the advantages gained by the use of money. But even when allowance has been made for such cases it remains true that the small borrower is the very class least able to afford a high rate of interest. We are in full accord with the view of Dr. J. R. O'Connell, member of the Loan Fund Board, who said:—"The deserving borrower requires a definite sum for a definite purpose, and he ought to get that sum without any deduction at the beginning. It embarrasses a borrower to get his loan short, and it forces him sometimes to borrow more than he really requires. . . . Owing to the fact that we are so strictly regulated by the Act of Parliament, we are not able to make those equitable adjustments for a borrower which a sensible Bank manager can do. . . . We were started, I take it, to do as well for the borrower as the Joint Stock Bank would do as a mere commercial concern, and owing to the altered circumstances of sixty years we find we are doing worse for the men instead of better. . . . The whole banking system of the country has completely altered since '43, and the facilities for getting the money at Banks at present—even in rural districts—completely and radically alter the system of things." Dr. O'Connell added:—"My own view is that the whole (Loan Fund) system is wrong, and if we had co-operative banks in this country the money could be lent at a very much lower rate." 6764, 6811-13, 6835.

Expensive Methods of Thrift.

247. As showing how indifferent even thrifty borrowers are at times to the real rate of interest charged, and as an illustration of the various psychological elements which enter into these problems, we quote the following extracts from the evidence:—

"The weekly loans we issue to all borrowers within a radius of two miles of the town, and to all labourers, no matter what the distance is. We compel them to pay weekly, and in these cases it is practically banking so much money with me each week. Say, they get £2, they pay 2s. a week to me regularly, and at the end of twenty weeks they have £2 to get again. I have a large number of cases where they go to the Post Office and lodge this money, and pay it back to me in weekly instalments. J. J. Healy, 1361

Q.—“What is the idea?—A.—They say that they are under an obligation to me to pay this money, and that they will pay me, and that they would not trust themselves to lodge it in the Post Office.”
“Q.—“They borrow £2 from you, and lodge it in the Post Office Savings Bank?—A.—Yes. I pay them out £1 19s. 2d. in the case of a £2 loan, and they add 10d. to it, and lodge the £2. I have a case on my books of a person borrowing a weekly loan of £3 for seventeen years.”

The above is a curious instance of well meant but misdirected thrift; for the woman was borrowing at £10 6s. 10d. per cent. per annum from the Loan Fund Society to lodge the money in the Post Office at 2½ per cent. !

A similar instance was furnished to us by the Clerk of the Bandon Society :—

D. G. Scott,
3899-01.

“I know of one borrower who gets £3 or £4 from our Society, and she puts it immediately into the Post Office Savings Bank.”
Q.—“She gives you over 7 per cent., and she gets 2½ per cent?—A.—Yes; but she compulsorily saves 4s. a week.”
Q.—“That is hardly good banking?—A.—She finds it to her advantage. It might be taken away from her by her family or someone else.”

In these, and numerous other analogous cases brought under our notice, there is no doubt but that the borrower has no conception of the rate of interest paid. The immediate possession of a golden sovereign by the payment of a discount of 4d. for a period of five months, or by the payment of 1½d. each month for the same period seems to an agricultural labourer, for example, a gain well worth the apparently trivial payment asked. Unquestionably in many cases the loans have been of the greatest advantage to the borrower. Many of the most industrious and thrifty of the workers, rural and urban, of this country habitually resort to Loan Fund Societies for advances, and continue the practice year after year, repaying regularly—a sufficient proof that they find the loans advantageous. But in spite of this qualification, we cannot consider the system as at all productive of the benefits which would be conferred by the same amount of capital advanced through Co-operative Credit Societies.

Paras. 270, 271

Bad Debts in Loan Fund Societies now comparatively few.

248. If the numerous Loan Fund Societies which have been dissolved or are at present in the hands of Receivers be left out of account, the proportion of bad debts incurred in recent years in the working of the system is, on the whole, comparatively small. The following are the figures for the past ten years :—

YEAR.	Number of Societies incurring Bad Debts.	Amount of Bad Debts charged to Capital.
1903	14	£ 470
1904	18	576
1905	14	217
1906	9	421
1907	12	167
1908	8	160
1909	14	503
1910	8	108
1911	5	55
1912	11	56
		<hr/> 2,733

The officers of Societies who gave evidence at our Inquiry frequently referred to the generally satisfactory manner in which borrowers finally repaid their loans, although fines were often necessary for late payments. The Inspector of the Board said :—“As a rule I find them very honest and anxious to meet their liabilities, although some of them are really very poor.” A member of the Board stated :—“The losses in our Societies during all these years have been very small. In all the Reports, if you look at them, for the last ten or twelve years at any rate, where the amount lent was always something about £170,000 or £220,000, the losses have been trifling.” The late Treasurer of the Ballyjamesduff Society said that his Society had lost only £313 in eighty years, in transactions amounting to almost £1,000,000. During twelve years only one warrant had been executed. The late Treasurer of the Moyne Society furnished, perhaps, the most striking record of any : he said that although the Society had been established in 1837, only £17 had been lost, in two cases, during the whole period of seventy-five years.

F. C. Scarr, 503.

Dr. J. R. O'Connell, 6881-3.

F. J. Lynch, 13017-8.

J. J. Perceval, 977-80.

Heavy losses in certain districts in winding-up of Societies.

249. On the other hand, disastrous losses have occurred in certain districts of Ireland, especially in the North, in connection with Societies which have been wound up or are in the hands of Receivers. The knowledge that the renewals of loans had been declared illegal, and that such renewed loans were irrecoverable, seems to have demoralised many borrowers, and subsequent amending legislation could not retrieve the situation. Many Receivers are to-day engaged in the ungrateful task of recovering balances due long ago. A Receiver for seven Societies told us that about £8,000 had been collected out of £14,000 due, and that he did not expect to get in much more, as many of the borrowers were dead, the debts had been incurred fifteen years before, the people did not feel any responsibility, and the Petty Sessions decrees did not operate against representatives. Another Receiver had a similar tale to relate :—" I know what the borrowers are. I know parts of the country in which the people should be lent no money The power of the borrowers in doing away with their visible assets is marvellous, some districts being so bad that nothing can be recovered in them, and they have been the same for the last fifty years."

Paras. 217-8.

T. W. Stafford,
14120-5.

A. W. Atthill,
13610-11.

From the numerous proofs which we have furnished in our Report of the general reliability of the Irish agricultural classes in respect of repayment of money advanced, it will be sufficiently clear that the heavy losses incurred through the failures of Loan Fund Societies in certain areas are unfortunate exceptions which are largely due to the peculiar circumstances connected with the history of the Loan Fund system.

Losses on the annual working of various Societies.

250. The following is a List of the Societies which showed a net loss during three of the last five years. The average annual expenses of each Society for that period are also shown :—

Name of Loan Fund Society.	Average Expenses of Management (including Salaries) during the period 1908-1912.	Net Loss on year's working.				
		1908.	1909.	1910.	1911.	1912.
	£ s.	£ s.	£ s.	£ s.	£ s.	£ s.
Limerick, Pery and Jubilee ..	163 2	11 14	15 2	15 19	19 0	24 0
Athy, Co. Kildare	114 16	43 12	24 9	25 2	14 17	10 17
Limerick, Industrial	93 11	31 9	28 4	23 15	49 3	25 3
Kanturk, Co. Cork	54 16	14 6	13 14	13 13	21 16	21 17
Drumlisk, Co. Longford ..	47 3	9 1	35 5	16 7	11 8	1 9
Imaal, Co. Wicklow	42 14	10 14	14 14	9 8	14 7	9 16
Roscrea, No. 1, Co. Tipperary ..	151 10	20 3	15 12	—	34 0	7 1
Durrow, Queen's Co.	89 10	48 10	23 4	23 13	13 7	—
Galway Industrial	48 7	0 6	—	9 13	20 5	6 19
Kilrea, Co. Londonderry ..	133 1	7 14	26 12	—	—	14 14
Drumquin (Old), Co. Tyrone ..	23 13	22 3	8 19	34 2	In abeyance.	
Newtownstewart, Co. Tyrone ..	22 5	123 0	14 12	Dissolved		—
Raphoe, Co. Donegal	93 7	—	3 9	3 8	14 8	1 18
Cashel, Co. Tipperary	216 1	—	26 18	30 16	—	5 3
Coalisland, Co. Tyrone	103 8	—	*613 3	3 11	—	15 17
Bandon, Co. Cork	30 0	—	2 16	—	4 2	3 15
Drumquin (New), Co. Tyrone ..	18 0	(Not started)		10 15	5 8	3 7

Fines for Tardy Repayment.

251. It must not be forgotten that the cost of loans to borrowers is frequently augmented by the imposition of fines for tardiness in repayment, authorised by Section 9 of the Act, and recoverable at Petty Sessions. The Committee of 1896 reported that—" although the Board's circulars, even from 1841, have enjoined on the management of the Loan Societies that fines should not be made a source of revenue, and that they should be as low as possible, with the view of relieving the borrowers from any unnecessary charges, not the slightest notice has been taken of these admonitions by the majority of the Societies. The fines are everywhere made a source of revenue. Even in those cases where there is no 'subscribed capital,' and consequently no interest payable on debentures, the fines

* Due to defalcations of a late Clerk of the Society

are frequently calculated at the maximum scale, and even this is sometimes exceeded. In Societies working without 'free capital,' the interest on debentures and the present excessive salaries and other expenses of management could not be discharged, were it not that the incomes of the Societies are largely augmented by receipts from fines." *

The restrictions attempted to be placed upon the infliction of excessive fines by the Board may be seen in Nos. 19 to 23 of the Model Rules.† We have no reason to think that undue fines are now imposed in the Societies, although there may be some exceptions; at any rate, we received no proof during our Inquiry of excessive fines being imposed. A considerable improvement in this respect has therefore probably taken place since 1896. Some penalty for tardiness in payment is essential; but it is clear that fines should not exceed in amount the sum which the Society would have earned in interest if the instalments had been regularly repaid and had then been reissued to the borrower.

The fact that the fines levied by Societies are not now given separately in the Reports of the Board, but are grouped with the figures for discount, interest, and receipts from sale of forms, unfortunately prevents a comparison of the relative amounts obtained by each Society from fines.

Recommendation in favour of Maximum Limit to Loans being raised to £50.

Para. 197.

F. C. Scarr, 522.

Rev. J. C. Irwin,
6900.

Dr. J. R. O'Connell, 6739.

J. J. Perceval,
1176.

T. W. Stafford,
14212.

J. A. Williams,
13856.

E. O'Reilly,
13182.

Very Rev. J.
Delaney, 16962.

Para. 496.

252. The great majority of the witnesses who dealt with Loan Fund Societies at our Inquiry advocated an increase in the maximum amount of the loan from £10 (the limit fixed from the earliest Acts of Parliament on the subject) to £20 or £30. The Board's Inspector informed us:—"I think the amount of the loan might be increased, because I heard during the course of my inspection great complaints about the amount being so small, and the small farmers don't think it worth their while to get a £10 loan. I have heard that in various localities during the course of my inspection." In most, if not all, cases, however, the witnesses were of opinion that £50 (the present maximum limit to the loans of Credit Societies) would be too high for Loan Fund Societies, save in the most exceptional cases. We are strongly of opinion that the legal limit of £10 is too low, and that this fact has from the beginning been a grave disadvantage to the operations of the Societies amongst the small and medium farmers of the country. Taken in conjunction with the short period of twenty weeks hitherto adopted almost invariably as the term for a loan, this limitation of amount has virtually shut the door in the face of many deserving rural borrowers.

We accordingly recommend that in any legislation which may be found necessary to deal with Loan Fund Societies, the maximum for loans may be raised to the same amount as in Agricultural Credit Societies, *i.e.*, £50. In practice it is unlikely that advances exceeding £30 would be often applied for.

Object of Loan seldom inquired into.

F. C. Scarr,
498, 528-9.

J. J. Healy,
1316-8.

253. The evidence leaves no room for doubt but that in few Societies is the object for which the borrower requires an advance inquired into. The Board's Inspector definitely stated that cognisance was not taken of the purpose of a loan, and added:—"I think there is some abuse with regard to the people who get it. . . . They probably don't use it for proper purposes." The Secretary of the Tullamore Loan Fund Society said:—"I think that is the big fault—want of proper supervision by the Committee or those connected with the Societies as to what the borrowers are really doing with the money, and how they intend meeting it when it comes due." We were glad to learn that in his own Society more care was taken in this matter. "Not alone is there careful inquiry made into it, but we make inquiries as to how they propose to meet the loan at the end of five months, and in all these cases we compel the borrower to get two securities residing in the same locality as himself who are conversant with his affairs, and that I can consult if I am not satisfied with the statements made by him." But such supervision is, we believe, rare.

See para. 488.

D. G. Scott,
3796-7.

In the case of Loan Fund Societies, as in that of Credit Societies, much depends on the personality and capacity of the Committee and Clerk or Treasurer. Due regard to the reproductive purpose for which a loan is asked is one of the chief factors in the success of a Credit Society; but to enable supervision to be effectively carried out, it is essential that the area of operation be small, so that the members of the Society may have a fairly intimate knowledge of each borrower's position and character. Such supervision, even if attempted by the Committee of a Loan Fund Society, must be much more difficult of accomplishment, owing to the wider area of operations. The Clerk of the Bandon Society stated that the Society's area takes in the whole Bandon Union and some electoral divisions of other Unions. "It would be at least twenty miles—that

* C. 8381-1897, paras. 105-6.

† Appendix 18 to Minutes of Evidence.

is a ten-miles radius.” The Treasurer of the Abbeyleix Society said :—“ We take in a radius of five miles on the north side, three miles on the south, five miles on the east, and four miles on the west.”

D. Kennedy,
17167.

The frequent absence of supervision, and indeed of the power to supervise, the expenditure of loans is yet another feature in which the Loan Fund Societies fall far short of a well-managed Co-operative Credit Society. We were glad to be informed that the serious overlapping of the areas of different Societies, a defect complained of by the Committee of 1896, has almost come to an end, owing to a revision of the areas by the Board in recent years. This overlapping made it very difficult to prevent a single borrower from resorting for money to two or three different Societies at the same time.

Rev. J. C. Irwin,
6891.

LARGE PROPORTION OF AGRICULTURAL BORROWERS.

254. Your Committee endeavoured to obtain as much light as possible regarding the classes of borrower who make use of the Loan Fund Societies. The following average figures*for all the Societies in the year 1911 were supplied to us by the Board’s Inspector:—

Farmers	61	per cent of the borrowers.
Labourers	19	„ „
Shopkeepers	3	„ „
Others	17	„ „
			100	

Although the Loan Fund System was originally established to meet the needs of town workers, it is evident from these figures, and from the testimony of well-informed witnesses at our Inquiry, that the great majority of the borrowers are now drawn from the agricultural classes. Assuming that half the labourers who borrow are agricultural, as distinct from town, labourers (in some Societies the proportion of agricultural labourers is much greater), it will be observed that no less than 70 per cent. of those who resort to Loan Fund Societies in Ireland are either farmers or agricultural labourers, the farmers being almost seven times as numerous as the labourers. As Dr. O’Connell said :—“ In many cases the system is availed of by a class of people in a district where it was not originally contemplated that it should be in existence at all. It has got into the rural districts, and the idea in ’43 was that it should be for urban communities.”

See para. 194.

6753.

Societies in which over 80 per cent. of the borrowers are farmers.

255. The following are some rather striking illustrations of the wide extent to which certain Loan Fund Societies are called upon to deal in purely agricultural credit. :—

Name of Society.	Class of Borrower (in 1911).			
	Farmers.	Shopkeepers.	Labourers.	Others.
	Per cent.	Per cent.	Per cent.	Per cent.
Arva	100	—	—	—
Athlone (Ros.) ..	87	1	4	8
Crichton	85	—	8	7
Drumquin (Nos. 1 and 2)	100	—	—	—
Drumlish	98	—	1	1
Drumshambo ..	96	—	2	2
Imaal	88	—	4	8
Irvinestown	98	—	2	—
Kilrea	84	—	4	12
Leitrim	95	1	1	3
Moville (1)	91	1	5	—
Moville (2)	91	2	5	2
Mohill	90	—	5	5

In the Kinsale, Mallow, Kanturk and Fethard Societies labourers form the greater part of the borrowers. In only sixteen Societies out of fifty-one did the farmers fall below one-half the total number of borrowers, while in twenty-two Societies farmers formed more than three-fourths of the customers. In only three Societies did shopkeepers comprise even one-tenth of the borrowers.

Para. 503b.

Your Committee need not emphasise the conclusions manifestly to be drawn from two cogent facts made clear during our Inquiry :—first, that the Loan Fund System is in almost every particular unsuited to the needs of agricultural credit, to meet which

* Similar figures for each Loan Fund Society in Ireland are given in Appendix 19 to Minutes of Evidence.
O 2

it was indeed never designed ; and, secondly, that in spite of these hindrances, the great majority of the applicants for loans are of the farming class. Doubtless, there are chronic borrowers to whom the loans are of no use, and to whom they should not have been granted ; but, on the other hand, there is proof that many farmers find the system, defective as it is, to be of much benefit, more particularly where repayment by instalments is not required.

The whole facts in connection with these Societies strengthen the conclusion, arrived at by us on many other grounds, that there is urgent need for a sound system of agricultural credit in Ireland to meet the requirements of the small and medium farmers and the agricultural labourers of the country—needs which cannot be adequately met by any of the existing lending institutions.

Excessive Salaries paid by many Societies.

256. A study of the Report of the Committee of Inquiry of 1896 reveals to what an extent the payment of unduly large salaries to Clerks had been carried by the various Societies. The maximum salary allowed by the Rules had usually been paid. In the 103 Societies then existing the total salaries amounted to £9,935, an average of £96 10s. for each Society. The Committee reported that “having regard to the nature and extent of the work performed by Loan Fund Clerks, and to the time necessary for the proper discharge of their duties, rarely involving in any case more than two days’ work each week, and in some cases only one day, we are clearly of opinion that the salaries at present paid to them are altogether excessive.” *

From the last Report of the Loan Fund Board (that for the year 1912) it appears that the salaries paid in the fifty-one Societies which furnished Reports in that year amounted to £3,777, or an average per Society of £74, a reduction of 23 per cent. in the average cost to each Society. The number of persons employed was 102, or an average of two persons for each Society. One Society, Londonderry, with a capital of £3,409, of which only £1,709 was working on 31st December, 1912, pays annually £245 to four officials, although the number of loans issued average only 22 per week, or 3 per day.

The following are the Societies employing three officials :—

1. Name.	2. Total Capital on 31st December, 1912.	3. Working Capital on 31st December, 1912.	4. Total paid in Salaries.	5. Percentage of Working Capital paid in Salaries.
	£	£	£ s. d.	
Hacketstown, Co. Carlow	1,479	1,477	33 18 6	2·3
Kinsale, Co. Cork	1,728	1,726	58 6 0	3·3
Athy, Co. Kildare	1,072	1,072	78 12 0	7·3
Tullamore, King’s Co.	1,574	1,570	100 0 0	6·3
Drumshanbo, Co. Leitrim	2,987	2,986	100 0 0	3·3
Leitrim, Co. Leitrim	1,789	1,789	73 0 0	4·1
Limerick Industrial, Co. Limerick	1,058	1,058	81 0 0	7·6†
Borrisokane, Co. Tipperary	2,068	2,067	95 0 0	4·6
Cashel, Co. Tipperary	3,600	1,701	180 0 0	10·5
Fethard, Co. Tipperary	1,177	1,176	47 0 0	4
Tipperary, Co. Tipperary	1,112	1,108	55 10 0	5

The following are some Societies in which the cost of salaries bear a comparatively high proportion to the working capital :—

	£	£	£	
Kanturk, Co. Cork	256	255	48	18·8‡
Mallow, Co. Cork	966	971	73	7·5
Newmarket, Co. Cork	435	433	50	11·5
Ballingarry, Co. Limerick	756	454	41	9
Kells, Co. Meath	743	742	75	10·1

When it is borne in mind that the figures in column (4) in above Tables are for salaries alone, and do not include rent and other expenses which often add materially to the cost, it will be clear that in many instances salaries are still paid, and extra officials employed,

* C 8381—1897, Para. 33.

† Net loss during year, £25 3s. 5d.

‡ Net loss during year, £21 16s. 10d.

far beyond the requirements of the case. In many Societies only a few hours per week must be involved, and yet a considerable salary is paid, sometimes even though its payment entails a large net loss on the year's operations.

High salaries, heavy interest, needy class of borrower, and annual deficits in same Societies.

257. In Kanturk Society, the total expenses of management amount to no less than 21·4 per cent. of the total working capital of the Society, in the Cashel Society to 12·3 per cent., in Kells Society to 11·6 per cent., in Mallow to 10·5 per cent., and so on. It is rather remarkable, and very regrettable, that in most of these last-named Societies the great bulk of the borrowers are labourers, the class needing the most inexpensive form of credit; and that some of these same Societies are those which charge abnormally high rates of interest. In most of them, also, a heavy deficit is shown for the year 1912. The Kanturk Society, for example, charges over 13½ per cent. per annum, though it has all its capital of £256 free of interest. It operates chiefly among labourers, who number 55 per cent. of its borrowers, its average loan being only £2 10s. 10d., less than half the average for all the Loan Fund Societies, and much the smallest average for any individual Society, thus showing the comparative poverty of the borrowers. In spite of its exacting 13½ per cent. from this needy class, this Society made, as we have seen, a loss of almost £22 in 1912, its salaries and expenses totalling £54 10s. 9d. In 1911 the deficit was £21 16s. and in 1910, £13 12s. 10d. At this rate of eating into its small capital to pay salaries and meet deficits, the Society must soon become defunct. Mallow Society likewise charges over 13½ per cent., though £556 of its capital of £966 costs it nothing; it also numbers labourers as its chief clientèle.

Para. 503B.

Some Societies with low cost of management.

257A. Taking the fifty-one Societies together, the expenses of management for 1912 (£4,727) amounted to almost exactly 6 per cent. of the working capital (£79,979). In many Societies the percentage is much smaller, as for instance in Moyne Society, where it is as low as 2·5; Hacketstown Society, 3·3; Abbeyleix, 3·6; Coalisland, 3·8; &c. We are not surprised to find that some of these Societies where the salary list and expenses have been cut down to the lowest point are those showing the finest record of good work done. In our opinion, those Societies in which the personal interests of the well-paid and underworked officials are placed first, even though a heavy deficit on the year's working is the result, have no excuse for their existence. We are not in a position to classify definitely the existing fifty-one Societies into good and bad; but a study of the various figures published in the Annual Reports of the Loan Fund Board will enable a fairly accurate judgment to be arrived at.

STATISTICS SHOWING GREAT DECLINE IN NUMBERS AND OPERATION OF SOCIETIES.

258. The following figures for certain selected years since the creation of the Loan Fund Board reveal the heavy decline which has taken place in the number and operations of Loan Fund Societies in Ireland. Since the year 1860 the number of Societies has diminished by fifty-nine, or by almost 54 per cent.; the capital by £140,873, or by 61 per cent.; the circulation by £726,891, or by 79 per cent.; the loans annually issued by 165,409, or by 83 per cent.; and the number of officials employed by 205, or by 66 per cent.

Year.	Number of Societies Reporting.	Amount of Capital to be accounted for on 31st December.	Total amount circulated.	Number of Loans issued.	Number of Paid Officials. employed.	Total expenses of Management, including Salaries, Rents, &c., and Loss on Notes.
		£	£			£
1838	50	67,130	180,526	148,528	—	2,720
1840	215	—	1,164,046	163,750	—	—
1850	132	182,501	662,794	189,235	295	8,629
1860	110	230,009	917,737	198,355	307	12,186
1870	88	149,805	565,422	121,078	234	8,852
1880	78	136,727	428,634	89,590	204	9,310
1890	99	178,992	498,651	85,713	205	10,373
1900	65	109,482	215,495	11,992	122	5,727
1910	51	89,176	196,898	39,650	105	4,797
1912	51	89,136	190,846	32,946	102	4,727

From the fuller Table in Appendices* it will be seen that the decline in the number and operations of Societies has been especially marked since the year 1897 (the date of the publication of the Report of the Committee of 1896) and that the Societies now show a decrease of one-half as compared with that year. In the Appendices we also publish a further Table showing by Counties the operations of the existing fifty-one Societies.† There are no Societies in Armagh, Clare, Down, Dublin, Kerry, Louth, Mayo, Monaghan, Sligo, Waterford, or Wexford. In addition to the fifty-one Societies in operation, twenty-seven are in the hands of Receivers or are being wound up, as follows: five in County Donegal, nine in County Fermanagh, one in County Kilkenny, one in County Londonderry, one in County Monaghan, and ten in County Tyrone.

Summary of Statistics of Societies for the Year 1912.

259. The following is a summary of the chief figures for the year 1912 in regard to the existing 51 Societies:—

	£
Capital on 31st December, 1912	89,136
Working Capital, 31st December, 1912	79,979
Capital held free of interest	56,001
Total amount circulated	190,846
Number of loans issued	32,946
Total amount received for discount, interest, fines, cards, &c. ..	6,679
Salaries paid	3,777
Number of officials	102
Total expenses of management	4,727
Interest paid or due by Societies using capital secured by debentures	1,338
Number of depositors owning said capital	512
Net loss (in 18 Societies)	250
Net profit (in 32 Societies)	996
Bad debts charged to capital	56
Amount expended for useful local purposes	105

Sixty-three per cent. of total Capital of Loan Fund Societies held free of interest.

260. Of the total capital of £89,136, no less than £56,001, or almost 63 per cent., is held free of interest by the Societies, being original subscriptions or unappropriated profits. The Societies with the largest sums in "free" capital are:—Ballyjamesduff, £4,950; Athlone (Ros.), £4,171; Antrim, £4,057; Cashel, £3,600; Londonderry, £3,409; Crichton, £3,374; Limerick (Pery and Jubilee), £2,092; Moville, £2,028; Athlone (St. Mary's), £1,946; Kinsale, £1,728; Letterkenny, £1,664.

The capital thus held entirely free of interest by forty-nine of the fifty-one Loan Fund Societies is almost precisely the same in amount as the total capital, £56,554 (including deposits, State advances, and Bank overdrafts), held by over 170 Credit Societies in Ireland in December, 1911, at from 3½ to 5 per cent. In spite of holding such a large amount with no cost for interest, the Loan Fund Societies usually lend it out at the rate of from 7 to 8 per cent., and in some cases at 10 and even 13 per cent.; while the Credit Societies, though borrowing at from 3½ to 5 per cent., usually charge borrowers only 5 or 6 per cent. The contrast is, to say the least, very striking: and is all the more suggestive when we find such cases as that of the Antrim Society, which with £4,057 in free capital, finds a demand for only a little over £1,000 (at 7 per cent. interest), and keeps £3,000 locked up in Government Securities; or the Londonderry Society, which with £3,409 in free capital, similarly finds a demand for only one-half this amount at from 8 to 11 per cent. per annum. Another analogous instance is that of the Limerick (Pery and Jubilee Society) which, with a free capital of £2,092, had only £1,033 in operation on 31st December, 1912, and showed a net loss for the year of £23 19s. 7d., the expenses amounting to £162 14s. 7d. (of which £135 was for the salaries of two officials).

In view of the incontrovertible fact that very large numbers of small farmers and labourers in all parts of Ireland are, as shown by the evidence at our Inquiry, greatly in need of a system of loans, especially in the spring-time for current expenditure, and not repayable until the autumn or winter, it is a matter for the deepest regret that the Loan Fund system, which might have done so much—even under the actual and supposed limitations of the Act of 1843—should have failed so completely in many cases, especially where considerable sums of free capital were available, to do much more than provide salaries for officials to the detriment of the interests of the borrowers.

* See Appendix 21 to Minutes of Evidence.

† See Appendix 20 to Minutes of Evidence.

Good use made of free capital by some Societies:

261. In pleasing contrast to the failure of some Societies to give their borrowers the advantages to be derived from the possession of free capital stand such cases as those of the Ballyjamesduff and Crichton Societies. The former with a free capital of £4,950 (its total capital) advanced in 1912 the large sum of £13,100 in 1,643 loans, these being much the largest totals of any Loan Fund Society in Ireland. The funds were thus turned over two-and-a-half times during the year. The rate charged was only 2d. in the pound for the total period of five months, deducted as discount, equivalent to £3 12s. 5d. per cent. per annum in interest, an exceptionally low rate, although it enables a bigger margin of profit to be earned than is possible to a Credit Society borrowing at 4 per cent. and lending at, say, 6½ per cent. The net profit of the Ballyjamesduff Society's operations in 1912 was £102 0s. 3d. Crichton Society, possessing the sixth largest sum in free capital (£3,374), lent £7,362 in 1912, thus turning over its capital more than twice in the year. As the limit of twenty weeks for loans enables a Society to turn over its capital, if fully employed, two-and-three-fifth times during a year, it is quite possible for the total funds to be lent twice during the year, and yet to lie idle for part of the year. The Treasurer of the Crichton Society informed us that £300 or £400 of its capital was idle, in spite of this double turn-over. The rate of interest charged by this Society is £6 15s. 9d. per cent per annum, which, though higher than in the Ballyjamesduff Society, is a reasonable rate; but it could be considerably reduced in view of the capital being held free of interest. It is not surprising to find a net profit of £73 17s. 3d. during the year. Other Societies with considerable net profits, due largely to the possession of free capital, are Moville (£74), Abbeyleix (£72), Clara (£54), Athlone (£51), &c.

Para. 245.

G. Arnold, J.P.,
11269.

Taking the Societies as a whole, they lent £190,846 in 1912, on a total capital of £89,136, the average size of loan being £5 16s. If their capital had been fully turned over once in every twenty weeks, a sum of about £231,750 could have been lent, assuming no loans to be repaid by instalments. If, however, loans are repaid regularly by monthly instalments it is possible for a Loan Fund Society to turn over its total capital four times within the year. The sum of over £350,000 could be thus lent in monthly loans during a year on the present capital of the Societies. If the loans were regularly repaid by weekly instalments, it would be possible to turn over the capital almost five times, and to lend about £440,000 in the year on the present capital. These figures give, we think, some conception of how the interests of borrowers suffer by the fact that a nominal loan of, say, £5 for five months is in reality, under the monthly instalment system, a loan of £5 for only three months; and, under the weekly instalment plan, is a loan of £5 for only ten and a half weeks.

If the interest earned be at once lent out, the above figures would be very materially increased.

Operations of Loan Fund Societies by Provinces.

262. The following Table shows the number of Loan Fund Societies in each of the Provinces and the relative extent to which this source of credit is made use of in each Province :—

Province.	Number of Societies.	Amount of Capital.	Total amount circulated in 1912.	Number of Loans issued.	Percentages based on number of Loans.
Ulster	15	£ 31,089	£ 69,472	10,505	31·9
Leinster	15	19,154	46,963	8,834	26·8
Munster	15	21,122	43,083	7,973	24·2
Connaught ..	6	14,771	31,328	5,634	17·1
Totals	51	£89,136	£190,846	32,946	100

While the number of Societies in Ulster, in Leinster, and in Munster is the same (fifteen), the amount of money advanced in the Ulster Societies is much greater than in any of the other Provinces. The relative positions of the Provinces is the same, it will be noted, in respect of borrowing transactions from Loan Fund Societies as in regard to charging transactions connected with agricultural land.

See para. 802.

Interest paid by Societies upon Debentures.

263. The interest due or paid in 1912 by the Societies on their Debenture capital was £1,338. This is equivalent to a payment of 4 per cent. on the total capital, less the free capital. The expenses, £4,727, were equal to a charge of $5\frac{1}{2}$ per cent. on the total capital, and of 6 per cent. on the working capital. Under the Act of 1843 the rate of interest payable on the capital, debentures, or deposits of a Society is limited to 5 per cent.; this rate appears to be the most usual one, but in some Societies a lower rate obtains. The Imaal Society (Co. Wicklow) for instance, only pays 3 per cent., we understand, and has also £115 of its capital of £496 free of interest. Yet in 1912 it made a loss of £9 15s. 10d.; its expenditure on salary, &c., was £46, while it received in interest on loans, sale of forms, &c., only £45. This Society issued only 114 loans in the year, so that the making of each loan cost 8s. 1d. in expenses, as compared with 1s. 10d. per loan in the Ballyjamesduff Society, 1s. 6d. in the Clara Society, &c., and an average of 2s. 10d. per loan for all the Societies.

Cost to the Societies of making each Loan.

264. It is natural that in the smaller Societies, with fewer borrowers, the expenses should be proportionately higher than in the larger ones; but the remarkable variations in cost are not always to be thus accounted for. Many Societies are throwing away all the advantages of capital held on easy terms by continuing a needless annual expenditure. In the Antrim Society, which has no interest to pay on debentures, and received in 1912 only £72 in interest, &c., from borrowers of 316 loans amounting to £2,907, the sum of £109 was spent in salaries, rent, &c., during the year 1912 (each loan therefore costing 6s. 10d. to make). Yet a net profit of £42 was earned; a result due to the fact that £3,000 of free capital was invested in securities. A somewhat similar case is that of the Cashel Society which, though it has no interest to pay on its large capital of £3,600, is one of the most costly to work (each loan entailing an expense of 5s. 9d.,) due to its paying £180 per annum in the salaries of three officials, and £31 in other ways.

The following are the Loan Fund Societies whose expenses per loan are highest:—

	s.	d.		s.	d.
Imaal	8	1	Ballingarry ...	5	10
Antrim	6	10	Cashel	5	9
Kinsale	5	10	Raphoe	5	2

APPROPRIATION OF SURPLUS PROFITS OF SOCIETIES.

265. One of the most serious defects in the Act of 1843 is the provision* which enacted that Loan Fund Societies, after annually placing not less than one-tenth of their net profits to a reserve fund for the security of the debenture-holders, might appropriate all or part of the remainder "to the support of any dispensary, hospital, or infirmary in the district or county in which such Society shall be established, or for such other charitable or useful local purpose as they, with the approbation of the said Loan Fund Board, shall think fit." It was also provided that similar use should be made of any unappropriated profits in the event of the Society being dissolved or otherwise deprived of the benefits of the Act. The latter provision is unobjectionable, and indeed desirable; it is somewhat similar to the condition laid down in the Friendly Societies Act for the utilization of the funds of a dissolved Society, and incorporated in the I.A.O.S. Rules for Credit Societies.† The chief object of such conditions is to remove from those responsible for the management of a Society all temptation to wind up the organisation for the sake of dividing the funds.

But to permit the annual allocation of nine-tenths of the net profits to "charitable or useful local purposes" was to open the door to very doubtful expenditure, while at the same time diverting money from the reserve funds which should have been steadily built up for the strengthening of the Societies' position, and the security of, or paying off, the debenture-holders. The profits should also have been devoted, we consider, after a sufficient reserve had been built up, to the lowering of the interest charged to borrowers, and towards assisting to defray the expenses of the Loan Fund Board, in return for the supervision and inspection afforded by it to the Societies. We fully concur with the recommendations upon this point made in their evidence by two members of the Board at our Inquiry. This view, we note, was also strongly urged so far back as 1855 by the

Para. 502.

Rev. J. C. Irwin,
6913.
Dr. J. R.
O'Connell, 6788.

* See 6 and 7 Vict., c. 91, Section 44.

† See Rule XIV., Appendix 22 to Minutes of Evidence.

House of Commons Select Committee of that year.* The Secretary of the Board informed that Committee that "the surplus funds have been applied to purposes which have failed to be productive of any good, either charitable or useful, and the money has been eventually lost to the funds; especially it has been applied mischievously to building purposes." He was of opinion that "many of the Societies are worked by gentlemen who might cease to be connected with them if the law were changed and if they had not the power of making appropriations of money for charitable purposes."†

The Committee of 1896 mentioned that the objects for which the Board's approval had usually been given were grants towards Industrial Schools, relief of the poor and sick, erection of libraries, aid of night asylums, the employment of the poor, &c. In the Committee's opinion, sanction should not have been given for such grants as gratuities to widows of deceased clerks, uniform for the fire brigade and flagging of the town of Tullamore, waterworks, lighting streets, erecting public clocks, &c. The Committee recommended that in future grants should be given from net profits "only where it is proposed to devote them directly to the benefit of the poorer borrowers."‡

Your Committee consider that even this proposal would be open to serious abuse, and that no further grants of any sort should be made from the profits of Loan Fund Societies, save only when a Society through any cause is dissolved or ceases to exist. In such event, the funds should be allocated (subject to the approval of the supervising Board or other central body) in a manner similar to that now enjoined for Friendly Societies, and preferably in the starting of a new Society in a district in need of same.

Para. 502.

Decline in practice of making grants for local purposes.

266. The Loan Fund Board appear to have issued from time to time circulars discouraging the allocation of surplus profits to local purposes. The following figures, giving the total amounts thus expended by the Societies in certain years, show that the practice has greatly diminished and is now almost non-existent:—

Year.	Amount expended on local purposes. £			
1850	589
1860	3,300
1870	1,552
1880	2,014
1890	914
1900	523
1910	135
1912	105

The sum of £105 in 1912 was expended by the following Societies:—Antrim, £5; Athlone (St. Mary's), £10; Ballyjamesduff, £20; Clara, £25; Athlone, £45. The objects to which these grants were devoted included repairs to National Schools, furniture for schools, relief of the poor, purchase of books for Young Men's Hall, etc. In each of these cases a considerable net profit had been made during the year, while these Societies also possess a large "free" capital. One of the several anomalies in the Loan Fund system in Ireland is that a supervising Board, with a steadily diminishing income from the sale of documents and from interest on funds derived from same source, should have found itself called upon from time to time to approve of the expenditure, on such objects as the improvement of footpaths and waterworks, of the surplus profits of Societies possessing more capital than they could find employment for. The situation furnishes yet another illustration of the defective legislation which has throughout so seriously handicapped any efforts at improvement of the system.

J. J. Perceval,
957.

SOURCES OF INCOME OF THE LOAN FUND BOARD.

267. The sole source of income for the Loan Fund Board, as set forth in the Act of 1843,§ was the sale of various note forms to Societies at 1d. each, and of Debenture Forms at 1s. each, the Board bearing the cost of printing. A special five-line Act was passed in 1872,|| increasing the price of the forms from 1d. to 2d.—surely one of the most insignificant objects to which a special Act of Parliament has ever been devoted! Various other classes of document are also sold to the Societies. This source of income is supplemented by the interest on sums accumulated in the past from such sales. The income being thus dependent upon the lending business done by the Societies—a

Dr. J. R.
O'Connell, 6729.See paras. 210,
228.

* *Report of the Select Committee of the House of Commons on Loan Fund Societies (Ireland), (259-1855),* p. iv.

† *Ibid.* Minutes of Evidence, 417, 437. ‡ *Report of Committee of 1896 [C. 8381-97],* paras. 122-6.

§ 6 and 7 Vic., c. 91, Section 46. || 35 and 36 Vic., c. 17.

See paras. 537-8.

most unwise arrangement, as we point out elsewhere in connection with Credit Societies—it was inevitable that with the decline in the number of Societies the Board's receipts should show a falling-off. The effect of the Report of the Committee of 1896, added to the influence of legal decisions as to the illegality of renewals of loans, being to cause great uneasiness amongst depositors and a diminution in the number of Societies, the income of the Board fell to £705 in 1897, as compared with £1,259 for 1896, a decrease of no less than 44 per cent. in twelve months. The average total income for 1893-6 was £1,208, so that in 1897 the receipts were 41 per cent. below the average for that period. The expenditure for 1897 being £968, the Board was faced with a deficit of £263, to meet which money set aside for investment had to be expended.* In 1898 the income further fell to £495; the expenditure exceeded this by £519, necessitating the sale of £500 of the invested reserve.† This selling of investments has since been an annual process, the details of which are given in the various Annual Reports of the Board.

Income and Expenditure of the Board for 1912.

268. The latest figures (those for 1912) show that the Board in that year received the following sums from the sale of Note Forms, &c. :—

			£	s.	d.
Promissory Note Forms	..	31,000	258	6	8
Borrowers' Cards	29,300	63	12	7
Application Papers	29,100	63	4	2
Default Notices	9,100	18	19	2
Summons Forms	1,500	3	2	6
Debenture Forms	76	3	16	0
Deposit Cards	12	0	0	6
Rules	—	0	12	6
Total	—	411	14	1

In addition the sum of £78 19s. was received in dividends from Stock, &c., while the Board obtained £502 7s. 6d. by the sale of Railway Stock. The total receipts were therefore £993 0s. 7d., and the expenditure (including Bank overdraft) £1,072 4s. 9d., leaving a balance due Bank of £79 4s. 2d. at the end of the year

The actual expenditure during 1912 (exclusive of adverse balance at opening of year) was made up as follows :—

			£	s.	d.	
Salaries	686	0	0		(Including Secretary, £350; Inspector, £256; Clerk, £80).
Inspector's Travelling expenses and subsistence allowance	109	3	10		
Petty Expenses	4	2	4		
Fire, Light, and Service	15	19	1		
Income Tax	8	4	7		
Law Costs	1	4	4		
Printing, &c.	124	16	3		
Interest and overdraft	1	5	8		
		950	16	1		

Entire invested capital of Board realised to meet expenditure.

269. It is obvious, therefore, that in a comparatively short time the work of the Board must automatically come to an end from the simple process of exhaustion of its invested resources. There can be no reasonable prospect of an increase in the sales of documents—on the contrary, there is every sign of a continued diminution in this source of income, which has fallen by £50 since the year 1910. The whole financial position of the Board was explained to the Vice-Regal Committee of Inquiry in January, 1912, and the details can be read in the Minutes of Evidence of that Report.‡ It is accordingly needless for us to go into details here. At that time the Board had remaining unsold only £2,000 of their investments, but we understand that since then it has been found necessary to realise the whole of this amount. The suggestion of the Board is that an annual grant of £500 should be made to them by H. M. Treasury.

* See *Sixtieth Report of the Loan Fund Board* (C. 8920-1897), p. 3.

† See *Sixty-first Report* (C. 9261-1898), pp. 4, 5.

‡ See *Minutes of Evidence, Report of the Committee of 1912*, dated 11th March, 1912.

Your Committee have given the whole subject the most careful consideration and have made every effort to ascertain the effect of the operations of the Loan Fund Societies and the place which they fill in the sphere of rural credit in Ireland. From what we have said in dealing with various aspects of these organisations it will be evident that in our opinion the whole system fails in many important respects to meet satisfactorily the borrowing needs of the community, especially of agriculturists, who are the Societies' most numerous customers. Even for weekly wage earners the system has many disadvantages; and these defects have been intensified, as we have shown, by incorrect interpretations of the intention of Acts of Parliament in regard to such important matters as the length of period for loans, the rates of interest charged to borrowers, etc. In no one point can the system compare with a well-organised scheme of co-operative agricultural credit.

Paras. 254, 255.

Comparison of figures of Loan Fund Societies with those of Credit Societies.

270. The following table sets out in a clear light, we think, some of the features in which Credit Societies surpass Loan Fund Societies as agencies of agricultural credit, as also the relative extent of the present operations of the two systems in Ireland. The figures are for the year 1912.

	Credit Societies.	Loan Fund Societies.
Number of Societies in operation ..	176	51
Total Capital	£62,206 0 0*	£89,136 0 0†
Amount of Loans granted	£58,244 0 0	£190,846 0 0
Number of Loans granted	8,522	32,946
Total Expenses	£738 0 0	£1,727 0 0
Average Expenses per Society	£4 3 10	£92 13 8
Net Profits in year	£532 0 0	£996 0 0
Net Losses in year	£68 0 0	£251 0 0
Average Cost to Societies of each Loan ..	£0 1 8	£0 2 10
Usual Rate of Interest charged to borrowers	5 and 6 per cent.	7 and 8 per cent.
Maximum period of Loan	1 year ‡	5 months.§
Maximum amount of Loan	£50	£10

* On which from 3 to 5 per cent. is usually paid by the Societies.
† Of which £56,000, or 63 per cent., is held free of all interest; the remainder usually at 4 or 5 per cent.
‡ Or longer, if repaid by instalments.
§ Under existing Rules, but there is no maximum definitely fixed by legislation.

Superiority of Credit Societies to Loan Fund Societies as lending agencies.

271. It is not feasible to include in a table of concrete figures the other equally important respects in which Credit Societies possess advantages lacking wholly or in part in the Loan Fund system. Such advantages are (a) the much greater security afforded to depositors by the liability (unlimited or limited) of all the members of a Credit Society; (b) the educative effect upon the borrower of supervision of the object of the loan, a principle often absent from Loan Fund Societies; and (c) the encouragement of thrift by the gathering in of small deposits. When to these are added the gain in greater elasticity of arrangements, in rates of interest, in maximum amount and period of loan, and the economy in expenses of working a Society, an overwhelming case is, your Committee consider, presented for the complete supersession of the Irish Loan Fund system by one of co-operative credit based on the lines suggested in our Report, rather than for any attempt to improve the working of the system under the present or revised rules.

See paras. 642-650.

We are, therefore, in full agreement with the following opinion of a member of the Board:—"I think the present system of the Loan Fund Societies is unsuitable to the needs of the time, and, personally, I think it is more inclined to decay, and it ought to be reformed in the direction of agricultural credit banks. I think it would be possible under an Act of Parliament to hand over the existing Societies under certain terms to Agricultural Credit Societies" The welcome instances of some Loan Fund Societies successfully working under careful management and reducing their rates of interest on loans do not furnish any real reason for modifying our opinion that, on the whole, the system both in its constitution and in its actual working is unsuited to the needs of the great majority of those

Dr. J. R. O'Connell, 6835, 6880.

requiring such aid. It was framed over a century ago to meet the credit requirements of certain industrial classes in Ireland, when such facilities for small borrowers were almost entirely lacking. Although modification of the Rules could undoubtedly effect many beneficial improvements, there is in our view no sufficient justification for retaining, by the aid of a State grant, a separate Board to supervise a distinct system of credit in Ireland, seeing that a co-operative credit system, based on much superior principles which have been fully tested by the experience of other countries, is in operation, and is likely, under the proposed reorganisation scheme, to develop considerably in the future.

It must also be borne in mind that public confidence in the Loan Fund system has in some districts been so completely shaken by past failures that any effort to resuscitate Loan Fund Societies would be doomed to failure in these areas.

PROPOSED DISCONTINUANCE OF LOAN FUND BOARD.

272. Your Committee have therefore no hesitation in recommending that the Loan Fund Board—which must, without special financial aid, shortly be without funds—should be discontinued. The present members and their staff have admittedly had an uphill fight against many adverse conditions for which they were in no degree responsible, these being a *damnosa hereditas* from their predecessors in office. With limited and diminishing financial resources they have, we think, endeavoured as far as possible to exercise supervision over the remaining Societies, and to effect by advice those improvements which they had no means of actually enforcing upon recalcitrant Societies. They have achieved much in this direction, perhaps as much as could have been hoped for, having regard to all the circumstances. The main functions of the Board in relation to the Societies are the sale of forms and the furnishing of supervision and audit, both of which duties can be efficiently performed under our proposed scheme by the Agricultural Credit Section of the Department of Agriculture. Several representatives of local Loan Fund Societies at our Inquiry admitted that if arrangements for the supply of forms and of inspection were satisfactorily made, the discontinuance of the Board would make no difference whatever to the Societies, useful as the assistance of the Board had proved in many cases.

PROPOSED TRANSFORMATION OF LOAN FUND SOCIETIES INTO CREDIT SOCIETIES.

See paras. 642-4.

273. The transformation of the existing Loan Fund Societies* into Credit Societies working in connection with the proposed Agricultural Credit Section of the Department of Agriculture would, in our opinion, confer very great benefit on small farmers and labourers of the districts. We assume that it would be legally necessary under the Act of 1843 for the funds of any Society to be utilized in the particular district or county of that Society's present operations. In some cases it might be desirable to create two or more Credit Societies in lieu of one Loan Fund Society. Several witnesses complained to us of the distances which they had to travel into towns to a Loan Fund Society; the establishment of Credit Societies upon the outskirts of a Loan Fund Society's area would do much to lessen this drawback of distance and loss of time, and would more widely distribute the available credit facilities.

Position of Debenture-Holders.

See para. 263.

274. Of the capital of £89,000 now held by fifty-one Loan Fund Societies, £56,000 is free of all interest; there should not, we think, be much difficulty in having this portion of the funds made available for the purposes suggested. The position of debenture-holders would naturally give rise to greater difficulties. Most of these persons (about 500 in number) are receiving 5 per cent. on their money; but in some Societies 4 per cent., and even less, is paid. Many debenture-holders might consent to be paid off, or might offer themselves for election as members of or become depositors in a Credit Society. In such Society, however, they could not under our proposed scheme be given more than 3½ per cent. upon their deposits, while if they took shares in a Credit Society on the limited liability basis, such shares, on which only a small part would be paid up, would earn no dividend, or, with the approval of the General Meeting, a dividend not exceeding 5 per cent. on the paid-up portion only.

See para. 385.

Para. 357.

* The names and location of the existing 51 Loan Fund Societies are shown upon the Map facing p. 286 of our Report.

The paying off of debenture-holders has made steady progress in some Loan Fund Societies already, and the process might be hastened by legislation if necessary. We do not think the difficulties are at all insurmountable; probably an amicable voluntary arrangement could be arrived at in many instances.

275. The financial position of the Loan Fund Board itself will in the course of a short time render some legislative action essential; we think such legislation should be sought for at the earliest opportunity, and that it should deal with the whole position not only of the Board but of the Societies, making it possible to use their accumulated funds as the nucleus for new Credit Societies, only a limited sum to be made available for any one Credit Society. The present "free" capital of the Loan Fund Societies would alone make available at once a sum (£56,000) almost equal to the total capital of the existing Credit Societies in Ireland, and we know of no manner in which this sum could be better utilised than in the providing of reproductive loans, for terms of ten or twelve months, or longer, in the field of small agricultural credit. Probably some industrial borrowers would miss the Loan Fund system of advances; but these borrowers form, as we have seen, only a small proportion of the customers of most Loan Fund Societies, and their requirements would, we believe, be equally well met by the Credit Societies. See paras. 254, 255.

CONCLUSIONS.

276. Our main conclusions and recommendations in regard to the Loan Fund Board system in Ireland are as follows:—

- (a) The whole system was originally designed with a view to aiding industrial workers, but is now utilized mainly by the rural classes of Ireland, 70 per cent. of the borrowers being farmers and agricultural labourers. Paras. 194, 254, 255.
- (b) In many important features, such as maximum length of term of loan, repayment by instalments, limitation of loan to £10, and comparatively high rates of interest, the system is unsuited to the requirements of agricultural credit. Full advantage, however, has not been taken of the latitude allowed by the Act of 1843 in several of these matters. Paras. 252, 270, &c.
- (c) Legislation affecting the system has been very defective, as, for instance, in giving the Loan Fund Board no real control over the local Societies, save by dissolving them, and in allowing the Board's income to depend upon the sale of forms, etc., to the Societies, while at the same time permitting surplus profits of Societies to be devoted to local purposes. Paras. 207, 230-2, 267, 265.
- (d) Legal decisions as to the illegality of renewals of loans, followed by defective legislative attempts to rectify matters, caused demoralisation in certain districts, enormous losses to depositors, and a complete shaking of public confidence in the Societies, of which 27 are now in the hands of Receivers. The total number of Societies in operation has decreased from 300 in 1842 to 51 in 1913, while the capital and number of loans advanced show even a greater decline. The large extension of Joint Stock Bank Branches has done much to diminish the operations of the Societies. Paras. 217-221, 258, 215.
- (e) Too much responsibility is as a rule left to the Clerks in the making of loans, the Committee in most cases taking little or no interest in the Society's working. The method of appointing the Committees (mainly by co-option) is seriously defective. Paras. 233, 238.
- (f) There is a total lack of security for debenture-holders and depositors, save in so far as this is supplied by the good management of a Society, by any accumulated Reserve, and by any guarantee furnished by the Treasurer and Clerk. (In this the system compares very unfavourably with Co-operative Credit Societies). The imagined Government security was a main influence in attracting depositors in former years, till disillusionment came. Paras. 234-7.
- (g) The present Board has done much to effect improvement, in spite of limited powers; but there are wide differences in the Societies, some paying regard to the interests of borrowers, while others seem to consider the payment of salaries more important, even when a serious deficit is the result. As a rule, the salaries are much too high, when the duties performed are taken into account; they amounted in 1912 to £74 per Society. The total working expenses per Society are similarly often excessive. Paras. 272, 256, 257, 249.

Paras. 260, 245,
246, 248.

- (h) Although 63 per cent. of the capital of the Societies is held free of interest, the rates of interest charged to borrowers are comparatively high, being as a rule about 7 or 8 per cent. per annum. Some Societies, however, lend at lower rates.

Paras. 239-244.

- (i) Repayment by instalments suits only weekly or monthly wage-earners. Most Societies now allow monthly loans to remain out in full until the end of the period. Only a few Societies have permitted the period of 5 lunar months (or 20 weeks) to be exceeded. This period is specified in the Rules, but not in the Act of Parliament, and its extension would have done much to make the system more adapted to agricultural credit.

Paras. 252, 253.

- (j) The legal maximum of loans, £10, is too low, and should be raised to £50, as in Credit Societies, although loans above £30 would rarely be applied for. Regard is seldom paid to the object for which loans are granted, thus depriving the system of a useful educative influence upon borrowers.

Paras. 267-9, 272.

- (k) The diminished income of the Board has forced it to sell annually for some years a portion of its investments, and in a short time its operations must cease from lack of the necessary funds.

The request for an annual State grant should not, we believe, be acceded to. Legislation should be introduced at the earliest possible opportunity discontinuing the Board and transferring its functions to the proposed Agricultural Credit Section of the Department of Agriculture.

Paras. 273, 274.

- (l) Seeing that in every respect Co-operative Credit Societies are more suitable agencies of rural credit than Loan Fund Societies, this legislation should also provide for the utilisation of the funds of the latter in the establishment of Credit Societies in the same district or county. Debenture-holders should as far as possible be paid off.

SECTION VII.

THE CO-OPERATIVE CREDIT MOVEMENT IN IRELAND.

Your Committee having at an early stage of their proceedings become convinced that there was ample scope in Ireland for the operations of a well-organised co-operative credit system designed to meet the special needs of the small farmer and agricultural labourer, devoted particular attention during the course of their Inquiry to this branch of rural credit.

REMARKABLE GROWTH OF CO-OPERATIVE CREDIT IN VARIOUS COUNTRIES.

277. One of the most striking features of the rural economy of the leading Continental countries is the great and growing development of co-operative rural organisations of various types, and especially of co-operative credit. The movement has also spread rapidly in countries outside Europe, such as Japan and India. The following approximate figures, based upon information given in the Year Book of International Co-operation* and upon other sources, reveal the important part which organised co-operative credit now plays in the agricultural and industrial progress of the countries named (the figures include other than rural credit societies). Considering the comparatively recent date at which the movement commenced in some of these countries, the progress already made can only be described as phenomenal. Most, if not all, of the figures given below are below rather than above the actual numbers of Credit Societies in operation.

Country.	Approximate Number of Co-operative Credit Societies (rural and urban).	Number of Inhabitants per Society.
Germany ...	19,600	3,312
India ...	14,000	17,447
Russia ...	13,000	12,609
Austria ...	11,500	2,484
Japan ...	7,000	7,370
France ...	5,200	7,615
Hungary ...	4,000	5,221
Roumania ...	3,000	2,322
Italy ...	3,000	11,557
Spain ...	1,000	19,588
Netherlands ...	850	7,085
Belgium ...	760	9,856
Servia ...	700	4,159
Bulgaria ...	650	6,660
Finland ...	550	5,664
Switzerland ...	400	9,355
Ireland ...	176	24,944
Canada ...	140	51,463
Great Britain ...	70	585,412

278. Not only is the movement remarkable for the far-reaching area of its operations ; a further noteworthy fact is that in different countries its development has been on varying lines, as dictated by local conditions. Both in regard to the nature of the liability of the

*Published by the International Co-operative Alliance. The figures have been brought up to date as far as possible by Mr. J. R. Cahill.

members of Credit Societies ; the sources of capital ; the methods of granting advances ; the security required ; the nature of the supervision exercised ; the methods adopted for organising Societies ; the relations between the movement and the State—and in various other respects, wide variations in practice are found to exist, even within the borders of a single country.

The subject is a very extensive and complicated one ; it is, therefore, quite impossible, and indeed unnecessary, for us to give here even the briefest outline of it.* But we shall have occasion, when treating of various questions which have arisen in connection with the co-operative credit movement in Ireland, to refer in some detail to the experience of other countries in regard to these problems, and to draw such conclusions therefrom as may appear applicable to Irish conditions. We give in the Bibliography at the end of our Report references to some of the more important recent literature in English upon the subject of rural credit.

See pp. 387-390.

Main underlying principle of all co-operative credit.

279. The one main principle underlying all the differing forms of co-operative credit (whether in the smaller Societies chiefly dealing with personal security, or in the larger Associations, such as the *Landschaften*, which are more concerned with real property security) is the collective guarantee furnished by a group of persons, enabling them to obtain funds at a rate of interest lower than the rate at which the individual members could obtain such advances. The Co-operative Credit Society is, in short, an association of borrowers, not of lenders or capitalists, and its first aim is the benefit of its members in their capacity of borrowers. It is essential, therefore, that the expenses of management should be kept as low as possible, and that the making of loans should be carefully safeguarded, so as to minimise the risk of loss. The singular success with which this form of credit meets the special requirements of the agricultural industry—especially of the small and medium farmers—and overcomes the many obstacles which hamper commercial credit institutions in dealing with agriculture, is now a well-established fact incontrovertibly attested by the experience of many countries.

It will be observed that some of the main recommendations of our Report strongly favour the sound development of co-operative credit societies in Ireland, upon lines which we indicate, as the most satisfactory solution of the difficulties attached to the borrowing requirements of the agricultural industry, save for loans of a large amount, or for a long period.

PROPOSED DIVISIONS OF SECTION DEALING WITH CO-OPERATIVE CREDIT.

280. We now proceed to a consideration of the history and present position of the co-operative credit movement in Ireland, and to a necessarily detailed examination of various aspects of the constitution and work of the Credit Societies.

We shall, for convenience' sake, deal with the subject under the following divisions :—

- (a) Outline of history of the co-operative credit movement in Ireland.
- (b) The forms of Liability attached to Membership of Co-operative Credit Societies.
- (c) The Deposits received by Credit Societies.
- (d) The problem of Surplus Deposits (including the relations of the Societies to the Joint Stock Banks, and the question of a Central Co-operative Bank).
- (e) The question of Trading Powers for Credit Societies.
- (f) Loans made by Credit Societies.
- (g) Registration of Societies, Annual Returns, and Custody of Documents.
- (h) The Secretaryship of Credit Societies.
- (j) Advances from State Funds to Credit Societies.
- (k) The Inspection and Audit of Credit Societies.

*Exhaustive information in regard to the present position of the co-operative credit movement in all the countries where it is found is furnished in the *Bulletins* issued by the International Institute of Agriculture at Rome.

(a) OUTLINE OF HISTORY OF IRISH CO-OPERATIVE CREDIT MOVEMENT.

During our Inquiry we took pains to ascertain, as far as possible, the present condition and past history of numerous Agricultural Credit Societies in various parts of the country, and heard evidence from over 40 Secretaries and members of Committees of such Societies. We also received useful information from farmers who were members of Credit Societies, and who were accordingly in a position to speak from personal experience of the operations of these organisations. A large proportion, therefore, of our Minutes of Evidence necessarily deals with this subject, and to it also a considerable share of our Report must be devoted.

Evidence received on behalf of the co-operative credit movement.

281. In addition to the evidence of officers and members of local Credit Societies, we obtained much information as to the general principles and organisation of the movement from Mr. R. A. Anderson, who has been Secretary of the Irish Agricultural Organisation Society since its establishment; from Organisers working under that body; from Mr. A. Swain, who is in charge of its Audit branch; and from Mr. O'Connell Miley, Registrar of Friendly Societies for Ireland. We have aimed at ascertaining the facts not only in regard to some of the most successful Credit Societies in the country, but also in respect to some Societies which were either in a position of stagnation, or had been wound up; with, in each case, the causes of success or failure. It will not be possible from considerations of space to refer in our Report to more than a few illustrative cases, which may be taken as typical of many more of a like nature.

ORIGIN OF THE CO-OPERATIVE CREDIT MOVEMENT IN IRELAND.

282. It is desirable, we think, before entering upon a consideration of the evidence, to give a brief sketch of the origin and growth of the Co-operative Credit movement in Ireland. Many of the problems connected with agricultural credit in this country cannot be adequately understood without some knowledge of the past history of the system. This outline is based mainly upon the figures and other information contained in the Annual Reports of the I.A.O.S.

The Irish co-operative movement had its origin in the year 1889, and was due mainly to the efforts of Mr. (now Sir) Horace Plunkett and some other enthusiastic promoters of co-operation who aimed at the education of Irish farmers in co-operative principles as applied to agriculture generally. These pioneers of the system did not in the first few years introduce Co-operative Credit Societies, being of opinion that it was advisable for various reasons to commence with one particular branch of farming, *i.e.*, the dairying industry, which presented several features rendering it specially adapted for co-operative methods.

Foundation of the Irish Agricultural Organisation Society.

283. In 1894 the Irish Agricultural Organisation Society* was founded to take over the supervision and direction of the further progress of the movement under the Presidency of Sir Horace Plunkett. Our colleague, Rev. T. A. Finlay, M.A., who had taken part in the extension of the movement since 1895, became Vice-President in 1895, a position which he still holds. The Committee of the I.A.O.S. in 1894 invited Mr. H. W. Wolff to Dublin, to receive from him an explanation of the various agricultural credit systems in vogue on the Continent.† Mr. R. A. Yerburch, M.P., President, and Mr. Thomas Farrow, Secretary of the English Agricultural Banks Association, also assisted with information. The Report states:

"It was decided to make the experiment at Doneraile in the County Cork The Bank started in February under the management of a local Committee and Secretary, and has, up to the present, lent upwards of £100 in small sums. This money has been borrowed on the security of the members, and is being lent out at a low rate of interest. Loans are only made for productive purposes, or to effect an economy. The application of the loan is carefully watched, and, if misapplied, it is called in at once. Each borrower must provide two sureties, while, to further secure the Bank against loss, none but persons of good character and industrious habits are admitted as Members."

From the copyright Rules for Credit Societies issued by the I.A.O.S., which are reproduced as an Appendix to our Report,‡ it will be seen that the principle of unlimited liability, without share capital, was adopted as the basis of the constitution of these Societies.

* Hereafter in our Report indicated by the initials 'I.A.O.S.'

† See *First Annual Report of I.A.O.S.* (year ended 31st March, 1895).

‡ See Appendix 22 to Minutes of Evidence.

Progress made in early years of the movement.

284. In their Report for the year ended 31st March, 1896, the I.A.O.S. stated that the Doneraile Society (membership 71) which had started operations in February, 1895, had made satisfactory progress, and had proved of immense benefit to its members. Further Credit Societies had been established at Kyle, Queen's County (33 members), and at Belmullet, County Mayo (34 members).

By the end of the year 1898 the number of Credit Societies registered had grown to 38, with a recorded membership of 1,866, and a capital of £3,420. During that year loans amounting to £3,300 were made by the Societies. The Congested Districts Board had voted £100 in 1897 towards assisting the expenses of organising. Many of the new Societies were formed in the counties of Mayo and Galway, while three were registered in County Wexford on the limited liability principle, *i.e.*, at Ballindaggin, Blackwater and Castledockrell. The first-named of these, Ballindaggin, is still in existence, and we shall have occasion later to refer to its history; but the Societies at Blackwater and Castledockrell do not seem ever to have come into actual operation.

See paras.
339-340.

MAIN PRINCIPLES OF RAIFFEISEN CREDIT SOCIETIES.

285. The following extract from a Memorandum* issued by the I.A.O.S. some years ago sets out the main principles of the constitution and procedure of the Irish Raiffeisen Societies:—

“(1) The area of the society is limited so that all its members may be acquainted with each other.

(2) Loans are made for productive or economical purposes only—the object being to enable the borrower to realise a profit, or effect an economy, which will enable him of itself to repay the money borrowed.

(3) The period for which the loan is granted is regulated by the object of the loan, and is always calculated to fulfil this condition.

(4) Applicants for admission are admitted to membership if known to be sober, honest, and industrious. Poverty, so long as it does not result from the absence of these qualities, is no bar to membership.

See paras.
303-358.

(5) Members on admission become jointly and severally liable for all the debts of the bank, *i.e.*, for loans granted to themselves or other members, and for all sums of money either deposited in or lent to the bank for the purpose of being re-lent to its members.

(6) Borrowers must comply with the following conditions:—

(a) They must be members.

(b) The purpose for which the loan is required must be stated, also the term for which the loan is granted.

(c) They must find two sureties who will join them in a Bond guaranteeing the repayment of the loan and interest thereon, and who will further bind themselves to repay the loan in the event of its misapplication.

(7) The management of the bank is vested in a chairman and a committee elected by the members.

(8) No profits earned by the bank may be divided among its members by way of bonus or dividend, or otherwise disposed of; they must be allowed to accumulate as a reserve fund, which may be used to augment the capital of the society, and which, being free of interest, will in time enable the society to reduce the rate of interest charged to borrowers.

See paras.
523-544.

(9) While provision has been made for payment of secretaries, voluntary service is the almost invariable rule, the office of Secretary being discharged in the majority of cases by National teachers, and sometimes by the local clergy. Where payment is made for such services it is, as a rule, merely nominal.

See paras.
499-501, 382-5.

(10) The usual rates of interest on loans are from 5 per cent. to 6½ per cent. Interest is generally regulated by the rate at which capital can be obtained, a margin of about 2 per cent. between the rate of interest paid by the bank and that charged by it to borrowers being usually aimed at. Thus, if a bank borrows at 3 per cent., it will lend at 5 per cent.

*Annual Report of I.A.O.S. for 1910, pp. 76-8.

(11) Capital is derived mainly from three sources :—

- (a) From the joint stock banks, which grant advances in the form of overdrafts at a fixed rate of 4 per cent., irrespective of the fluctuations of the Bank rate. See paras. 438-9.
- (b) From individuals who deposit cash, at rates varying from 3 to 4 per cent.
- (c) From the Department of Agriculture, or the Congested Districts Board, for limited sums varying from £50 to £150 and, in a few cases, £200, at 3 per cent. See paras. 545-598.

(12) These societies are registered under the Friendly Societies Act, and are described as 'Specially Authorised Societies.' The power to borrow capital from sources outside their own membership was conferred upon them by the 'Societies Borrowing Powers Act,' promoted by Sir Horace Plunkett. See para. 371.

(13) Their accounts are audited annually—in the case of about 80 per cent. of them—by the audit staff of the I.A.O.S., which is under the supervision of a Public Auditor who holds his appointment from the Treasury. Returns, embodying the particulars contained in their balance sheets, are furnished by each bank to the Registrar of Friendly Societies in accordance with the Act. The minimum fee for an audit of the accounts of one of these societies by an independent Public Auditor would be £1 1s. The I.A.O.S. merely charges a nominal audit fee, and bears the entire expense in such cases where the society is unable to pay anything. See paras. 609-620.

(14) Their accounts are open to inspection by any person or body having an interest in their funds, *e.g.*, the Department or the Congested Districts Board. See para. 621.

(15) In so far as its limited resources permit, the I.A.O.S. periodically inspects, instructs and advises these societies. At the formation of every such society, the I.A.O.S. organises, advises and instructs the committee and Secretary in their duties, and printed instructions in a simple but suitable system of book-keeping are issued for their guidance. The I.A.O.S., moreover, supplies these societies with Rules and all necessary books and forms at cost price. The societies are encouraged to refer any questions in which they are in doubt to the office of the I.A.O.S., and a heavy correspondence, which is always promptly dealt with, results. Where a reply by letter does not appear adequate, a competent organiser is sent."

Sir Horace Plunkett's description of the aims of Credit Societies.

286. The following is a description by Sir Horace Plunkett of the aims and *modus operandi* of these Credit Societies* :—

"The exact purpose of these organisations is to create credit as a means of introducing capital into the agricultural industry. They perform the apparent miracle of giving solvency to a community composed almost entirely of insolvent individuals. The constitution of these bodies, which can, of course, be described only in broad outline here, is somewhat startling. They have no subscribed capital, but every member is liable for the entire debts of the association. Consequently the association takes good care to admit men of approved character and capacity only.

"It starts by borrowing a sum of money on the joint and several security of its members. A member wishing to borrow from the association is not required to give tangible security, but must bring two sureties. He fills up an application form which states, among other things, what he wants the money for. The rules provide—and this is the salient feature of the system—that a loan shall be made for a productive purpose only, that is, a purpose which, in the judgment of the other members of the association as represented by a Committee democratically elected from among themselves, will enable the borrower to repay the loan out of the results of the use made of the money lent.

"Raiffeisen held, and our experience in Ireland has fully confirmed his opinion, that in the poorest communities there is a perfectly safe basis of security in the honesty and industry of its members. This security is not valuable to the ordinary commercial lender, such as the local joint stock bank. Even if such lenders had the intimate knowledge possessed by the committee of one of these associations as to the character and capacity of the borrower, they would not be able to satisfy themselves that the loan was required for a really productive purpose, nor would they be able to see that it was properly applied to the stipulated object. One of the rules of the co-operative banks provides for the expulsion of a member who does not apply the money to the agreed productive purpose. But although these 'Banks' are almost invariably situated in very poor districts, there has been no necessity to put this rule in force in a single instance. Social influences seem to be quite sufficient to secure obedience to the association's laws."

Reasons given by I.A.O.S. for adoption of the Raiffeisen System.

287. The I.A.O.S. in their Report for the year 1898 stated at some length their reasons for the adoption of the Raiffeisen system as the basis for Credit Societies in Ireland. The following is a quotation from this Report :—

"We have always been desirous of introducing our methods of organisation into the Congested Districts, a project which needed much consideration on account of the extreme poverty of these places,

**Ireland in the New Century* (Third Edition), pp. 195-6.

which forbade any scheme of self-help involving any large preliminary outlay of capital. The human problem of the character of a people who had little or no familiarity with business methods negatived also any complicated plan which could not readily be understood by all. This latter point presented more difficulties than the first, and we considered it essential that the form of organisation introduced should not only be adapted to the peculiar necessities of the people, but should at the same time have an educational character.

"The Raiffeisen Agricultural Bank system seemed to us to answer all these requirements, and we were enabled to form an opinion on this, not only on account of the great success of the system abroad, but because we had already in the districts referred to a Society started on these lines where report and personal investigation showed that the Raiffeisen system could as a business be worked successfully in the poorest parishes in Ireland, and could also effect the moral regeneration of people who had not previously been handled in a way calculated to keep alive the spirit of self-help and independence."

By 1899 the number of Credit Societies had increased to 61, with a capital of £5,000, of which £1,700 had been advanced on loan by the Congested Districts Board to twenty-four Societies, at $3\frac{1}{2}$ per cent. The Societies were mainly confined to the counties of Mayo, Galway, Donegal, Clare and Wexford. An Irish-speaking Organiser was appointed for Irish-speaking districts, and certain revisions in the Rules, which experience had proved to be necessary, were carried out.

Large proportion of Capital of Societies furnished by State Departments.

288. In their Report for the year 1901, the I.A.O.S. stated :

"Following the enlightened example of the Congested Districts Board, the Department of Agriculture is prepared to advance sums of from £50 to £100, at 3 per cent. to Agricultural Banks, to serve as a nucleus around which local deposits can gather. This aid has enabled many new Societies to start in districts where local capital was not at first obtainable, and around this nucleus deposits in most cases come in."

The newly-created Department of Agriculture in this year, 1901, advanced £1,350 to eighteen Societies, while the Congested Districts Board had £2,980 on loan with thirty-six Societies. Of the total capital (£9,123) of the Societies almost one-half had thus been supplied by these State Departments. The I.A.O.S. in their Report dwelt at some length upon the relations of Joint Stock Banks to the Societies, and expressed regret that no uniform policy had been adopted by these Banking institutions in regard to the co-operative credit movement.

In regard to the Joint Stock Banks the Report for 1902 stated :—"It is satisfactory to report a very great improvement in these respects, and now any Society which is well managed can obtain money at 4 per cent., which is a reasonable rate and as low as could be expected."

In this year (1902) the total capital (*i.e.*, the funds at the disposal of the Societies) amounted to almost £14,000, the increase being mainly due to the fact that the Department's loans amounted to £4,655 to fifty-three Societies, as compared with £1,350 the previous year, while the loans from the Congested Districts Board showed an increase of £450. Four-sevenths, therefore, of the funds of the movement were at this stage supplied by the State.

County Councils and Co-operative Credit.

289. The Report for this year (1902) contained the following reference to the action of certain County Councils :—

"The Committee are glad to be able to report the enlightened action taken by the Derry County Council, which voted a sum of £50 towards the expenses of organising Agricultural Banks in the county, an example which is being followed by two other County Councils in the present year. We believe that as the movement grows and its advantage to the country is more realised, similar friendly relations will spring up between the I.A.O.S. and other County Councils, whose agricultural instructors find their best audiences among the members of our Societies. The Joint Stock Banks, which at first were a little inclined to hold aloof from our Credit Societies, are now willing to aid them and offer money on overdraft on reasonable terms, and the complaint made in the last Report cannot be repeated this year.

"Deposits are also flowing in more readily to the older Banks, which have established confidence in their management, and there is reason to believe that in a few years' time there will be no difficulty in Societies obtaining as much capital as they require. Hitherto they have acted chiefly as Loan Societies, and have not had, except here and there, the character of Savings Banks. The capital has been mainly borrowed either from the large Banks, or from the Department of Agriculture or the Congested Districts Board, and it cannot be felt that the organisation is altogether satisfactory until local capital is freely invested, and it becomes recognised that the superfluous capital of the well-to-do in any district cannot be better employed than in aiding, through local organisations, those whose need is capital on reasonable terms to enable them to carry on their business successfully. The Agricultural Banks will not fulfil reasonable expectations if they do not, in a few years, create that public spirit and mutual confidence which will entitle them to be called 'Friendly Societies,' as the Act under which they are registered names them."

By 1904 the nominal number of Societies had grown to 200; of these, however, only 144 furnished their annual Returns to the Registrar of Friendly Societies in accordance with the law. This failure of a large proportion of Societies each year to furnish their statutory Returns is a matter which will be dealt with more fully later on. The total capital of the Societies amounted in 1904 to over £28,000, of which about one-half was furnished by the State. The I.A.O.S. appear to have recognised the undesirability of the movement relying to such a large extent on loans from Government Departments instead of upon local deposits and overdrafts from the Joint Stock Banks. In their Report they stated :—

See paras.
508-515.

“ Local money is coming to be more relied on, and, whenever possible, the I.A.O.S. organisers deprecate applications to the Department if capital is otherwise procurable The Congested Districts Board and the Department still continue their aid to Credit Societies in districts where local capital is not at first available, and it almost always follows that confidence is established, and depositors appear after some months or a year has elapsed Following the example of Derry County Council, the Kerry County Council has voted a sum of £50 towards the expenses of organising Credit Societies.”

During the year 1904 twenty-nine Credit Societies had been removed from the I.A.O.S. returns, and twenty-eight new Societies registered.

Undesirable practice of renewing Loans.

290. Difficulties appear to have arisen at this stage in the movement from the growing habit of renewals of loans, which, as we have seen, proved so disastrous to the Loan Fund system. The I.A.O.S. stated in their Report for 1905 :—

See paras. 217-8.

“ Rather more than half of the Societies have now so thoroughly imbibed the principles of co-operative credit that the supervision of the I.A.O.S. is hardly necessary. Although about sixty or seventy Societies need supervision, there are only three or four which are so badly managed that they may have to be wound up on account of the incompetence of their Committees, and the impossibility of finding men of firm character to manage them. In none is there any expectation of loss of capital.

“ The reason why supervision is necessary is not so much the intricacies of the accounts, which are kept in a very simple manner, as in order to prevent the habit of renewals or extensions of time creeping in after the first year or so. So many farmers have got into the habit of renewals under the old system, that it is a constant object of the Organisers to impress on Committees the necessity of punctuality, and that a Society is not worked on right lines when loans are renewed, even if the borrower pays the interest, and his sureties are good for the amount.

In dealing with this question of renewals of loans, the I.A.O.S. Report for 1908 stated :—

“ The objectionable habit of renewals still continues in some Societies which are old enough to know better. It cannot be too often or too emphatically stated that whilst *extensions of time*, to enable a borrower to make his own out of a loan, may sometimes be good policy, and may occasionally be necessitated by the exceptional circumstances in which a borrower may find himself (as, *e.g.*, when he had expected to sell stock at a profit, and finds he must either defer sale to subsequent fair or sell at a loss), the *renewing* of a loan is always to be deprecated, and a second renewal should be sternly discountenanced by the Committees.

“ Instances have come under notice of Committees which have granted twelve-month loans, and on the date on which these fell due have renewed the loan year after year. In some cases the loans have been repaid and the money taken out again the same day or at the next meeting of the Committee *without being applied to a fresh purpose*. Needless to say, every such loan is a misapplication of loan and capital, and the borrower who pays interest on these loans is no longer working on ‘ economic credit.’ Besides this, such capital remains constantly in the hands of a few men, and other members are discouraged from borrowing by the belief that the Society is worked in the interests of a small group.”

Many proofs have been furnished to us during our Inquiry of the injury done to the co-operative credit movement by the system of renewals which prevails in some Societies.

Paras. 482-4.

291. Speaking at the Annual Meeting of the I.A.O.S. in 1907, Sir Horace Plunkett said :—“ As for the development of Co-operative Credit—perhaps the most urgent of all the economic reforms which confront both sides of the movement, in order that fresh working capital may be made available for a more advanced system of agricultural production and distribution—we have only just begun.” Even in Germany, however, the spread of Co-operative Credit Societies was at first a slow process. After 20 years only 4 Raiffeisen Societies were in existence, while in 1891, after 40 years, there were 885 Societies.* It is only since 1880 that phenomenally rapid growth has taken place in Germany mainly owing to well-organized propaganda in various States, and to effective Government assistance through the Prussian State Co-operative Bank.

Paras. 589-591.

**People's Banks* (Wolff), p. 131.

In 1907 the number of Credit Societies in Ireland furnishing Returns to the Registrar of Friendly Societies was 187,—107 of the 294 registered Societies failing to do so. The number returned by the I.A.O.S. as in actual operation was 226, so that 68 of those which had been registered had ceased to exist or had never begun to work. The amount held on loan from the two Government Departments amounted to £18,785, as against £17,098 held in deposits. This year marked the maximum State assistance of this nature.*

Care necessary in regard to Loans for holding over of Stock.

292. Your Committee have received a good deal of evidence showing that a purpose for which small farmers frequently require advances is the holding over of stock. Several witnesses have explained to us the great advantage which often accrues to a small agriculturist from being in a position to retain on his hands stock which are not ready for the market, but which, without some other means of obtaining ready money, he would be obliged to sell in their unfinished state at a price bringing little, if any, profit. In dealing with this question in their 1908 Report, the I.A.O.S. stated :—

“Loans for holding over stock require very careful judgment. These are frequently devoted to the payment of shop debts, and it not infrequently happens that after a series of such borrowings, a borrower finds himself no better off than when he began. No hard-and-fast rule can be made about this kind of loan, as, of course, it may happen that a borrower can make a profit by holding over stock till a more profitable market enables him to realise the proper value of his beasts; and if the money so secured enables him to escape from the clutches of the gombeen man, the loan may be thoroughly economic. Each case should, however, be gone into on its merits, and no loan be passed unless the Committee are satisfied that the borrower is not exchanging one kind of debt for another, with no advantage to himself and with, perhaps, risk to the Society.”

Large decrease in number of Credit Societies in the year 1909.

293. The figures for the year 1909 showed for the first time since the commencement of the movement a decrease in the number of Credit Societies. The large number of 41 Societies were struck off the I.A.O.S. list, while 7 new Societies were formed, leaving a net diminution of 34. Of the 234 Societies included in the Returns, 10 were reported by the I.A.O.S. to be either not working or not started. The number furnishing Returns to the Registrar of Friendly Societies was only 174, or 13 less than the previous year. In spite of the large net decrease of 34 in the number of Societies, the Returns of the I.A.O.S. showed an increase of over 1,000 in membership, and of £3,427 in deposits. These deposits, amounting to £23,688, were held by only 109 Societies of the total of 224 Societies returned as in operation, the remaining 115 Societies either having no deposits or making no Returns. The total number of loans granted by the Societies in 1909 amounted to 9,213, being the highest point hitherto reached, subsequent years showing a decrease.

Causes of Loss on the working of numerous Societies in the year 1909.

294. Thirty-one Societies showed a loss upon the year's working in 1909. In regard to this fact the I.A.O.S. wrote :—

“There is a continued growth in the reserve funds which the societies have accumulated. It may be noticed, however, that the number of banks showing a loss on the year's transactions is larger than in previous years. These losses (in no case due to bad debts) though in almost every case insignificant in themselves, are to be regretted, and should be avoided in future years. They have arisen in various ways, all of which are capable of prevention :

“(a) The larger number of losses have arisen owing to the fact that the narrow margin of profit available on the small transactions of banks working on, say, a couple of hundred pounds capital, is more than absorbed by the expenses, small though these are. In earlier years the I.A.O.S. found it possible to audit the accounts of these banks either gratuitously or at a nominal audit fee. This is no longer possible, and though the fee charged is still below that which public auditors would be justified in charging, it is often higher than a small bank, procuring, perhaps, the greater part of its loan capital from a joint stock bank at 4 per cent., supplemented by deposits at the same rate, and lending to its members at 5 per cent., can sometimes afford to pay. As has been pointed out in previous reports, the proper way to meet necessary expenses such as audit, affiliation, &c., is either to raise the rate of interest to six or six and a quarter per cent. (which, in the great majority of cases, is a cheaper credit than the small farmer can expect to obtain in any other loan transactions, and one which a loan for a genuine productive purpose should also justify), or, what amounts to much the same thing, to make a levy from the members, not exceeding 3d. in the £, to make up the sum needed for the purpose.

“(b) In a few cases losses have arisen owing to the fact that societies with fixed loans from the Department of Agriculture or the Congested Districts Board held this loan capital in the bank incurring interest, instead of lending it out to their members. This probably arose owing to their anxiety to have overdue loans cleared off, for which purpose the business of lending was temporarily suspended.

*See complete Table on p. 128.

“(c) A similar source of loss has been the tendency of bank Secretaries in a few cases to allow loans when repaid to be on hands instead of having them immediately returned to the bank in substitution for money being loaned out of overdraft.

“(d) In a very few cases expenses have been incurred for rent, fire, or other things which could probably be avoided by a little forethought. In almost every district it is possible to find a place of meeting, and no appreciable cost for fuel might be expected to arise from the monthly Committee meetings.

“(e) The other source of expense which may entail a loss on a Society with a small capital is the payment of the Secretary. It is felt that this is likely to continue and even to increase until either a large enough volume of business arises to provide the necessary profit—as was pointed out in last year’s Report—or until the banks are able to supplement their profit from some other source, such as would arise if the Thrift and Credit Banks Bill, which has so far failed to reach the Statute Book, became law. This continues to be the greatest need of the moment in regard to co-operative credit.” See paras. 450–477.

Continuous failure of large number of Societies to furnish the Statutory Annual Return.

295. In the year 1910 there was again a further large decline in the number of Credit Societies furnishing their statutory Returns to the Registrar of Friendly Societies, only 163 Societies doing so out of 237 on the I.A.O.S. books. This continuous and increasing failure of a large number of Credit Societies each year to furnish their Statutory Return to the Registrar is one of the most unsatisfactory features of the movement. The total nominal membership recorded showed an increase of 750 in spite of there being a decrease of 7 Societies. There was an increase of £1,389 in the deposits of the Societies, the total deposits exceeding £25,000 (in 104 out of 237 Societies), but the total capital of the Societies showed a decrease of about £600, owing mainly to repayments of State advances. See paras. 512–5.

Proposal to give trading powers to Credit Societies.

296. Special attention was drawn in the Report for 1911 to a change in the Rules of the Co-operative Agricultural Societies :—

“A new departure in agricultural credit is the incorporation in the rules of the co-operative agricultural societies of rules drawn up originally for credit societies only. It has long been felt that the very narrow margin of profit possible to most credit societies should be supplemented from some other source. A very natural source would be the trading profits arising from co-operative purchase and sale, but pending the passing of Lord Shaftesbury’s excellent Thrift and Credit Banks Bill—which is going through the Committee of the House of Lords whilst this report goes to press—credit societies have no legal powers allowing them to trade. This being so, it is hoped that some of the trading societies may make use of the newly drafted rules enabling them to add a banking branch to their business, and so bring within the reach of their members the advantages of co-operative credit.”

The various considerations for and against the proposal that Credit Societies in Ireland should be given trading powers are fully dealt with by your Committee elsewhere. See paras. 450–477

Report made by Inspector of Department of Agriculture on 103 Credit Societies.

297. During the year 1910, Mr. Mennell, who is an Associate of the Institute of Chartered Accountants and an officer of the Department of Agriculture, visited and reported upon 103 Credit Societies which at the time held loans from the Department. We shall have occasion to refer to Mr. Mennell’s Report, and his evidence before us, in the Section dealing with advances by the State to the co-operative credit movement; but may briefly indicate here that of the 103 Societies, 22 (or little more than one-fifth) were returned by him as satisfactory, 36 as fair, and 45 as unsatisfactory. See paras. 566–578.

TABULAR SUMMARY OF FIGURES OF CO-OPERATIVE CREDIT MOVEMENT IN IRELAND.

298. We have endeavoured in the foregoing paragraphs to outline, in as brief a space as possible, the salient facts in the progress of the co-operative credit movement in Ireland, from the foundation in 1894 of the first Credit Society at Doneraile (which ceased its operations a short time ago) to the year 1910.

We insert here a Table in which will be found full statistical details for each year of the movement since its commencement. This Table has been compiled from the Annual Reports of the I.A.O.S., and from figures furnished by the Registrar of Friendly Societies, the Department of Agriculture and Technical Instruction, and the Congested Districts Board. The facts have not, therefore, been previously available in this collated form.

TABLE giving for each Year from 1895 to 1911 various figures of the Co-OPERATIVE CREDIT SOCIETIES in IRELAND, including Number of Societies, Membership, Sources of Funds, Loans made, Reserve Funds, etc.

Year.	1. Number of Societies included in Annual Report of I.A.O.S.	2. Number of Societies in Col. 1 as not working or not started	3. Number of Societies in Col. 1 which furnished Annual Return to I.A.O.S.	4. Number of Societies on books of Registrar of Friendly Societies	5. Number of Societies in Col. 4 which furnished Annual Return to Registrar	6. Number of Societies in Col. 4 which failed to furnish Annual Return to Registrar	7. Total Member- ship of Societies	8. Deposits of Societies	9. Number of Societies possessing deposits	10. Amounts on loan from Department of Agriculture on 31st December		11. Amounts on loan from Congested Districts Board on 31st December		12. Other Loan Capital (Over- drafts on Joint Stock Banks, &c.)	13. Total Capital of Societies	14. Reserve Fund of Societies	15. Total Number of Loans granted by Societies to Members	16. Total Amount of Loans granted	Year
										£	Amount	£	Amount						
1895	2	-	2	2	2	-	71	-	-	-	-	-	-	-	-	-	-	100	1895
1896	3	-	3	3	3	-	138	-	-	-	-	-	-	278	278	32	-	388	1896
1897	4	1	3	4	3	1	170	-	-	-	-	-	-	295	295	42	124	475	1897
1898	38	14	22	38	18	20	1,866	-	-	-	-	800	13	2,620	3,420	-	-	3,306	1898
1899	61	3	42	61	34	27	2,481	-	-	-	-	1,700	24	3,198	4,898	-	-	5,550	1899
1900	73	6	47	74	41	33	3,117	-	-	-	-	2,330	29	3,767	6,097	-	-	7,270	1900
1901	101	22	65	102	53	49	4,265	-	-	1,350	18	2,980	36	4,793	9,123	-	2,534	10,459	1901
1902	145	44	98	147	82	65	5,597	-	-	4,655	53	3,430	40	5,871	13,956	-	3,241	15,447	1902
1903	201	50	127	203	118	85	7,917	-	-	7,455	86	4,330	47	7,803	19,588	-	3,722	20,435	1903
1904	200	10	158	232	144	88	11,257	-	-	8,835	99	5,030	57	14,601	28,466	1,181	5,822	31,742	1904
1905	232	6	193	264	193	71	13,035	12,710*	102	9,813	118	6,000	68	9,905	38,428	1,717	7,453	43,641	1905
1906	246	33	200	279	184	95	14,991	16,708	102	9,433	117	5,888	65	14,352	46,381	2,322	8,447	50,264	1906
1907	261	35	188	294	187	107	14,875	17,098	109	12,913	141	5,872	63	12,835	48,718	2,670	9,046	53,112	1907
1908	268	1	189	305	187	118	17,403	20,261	106	12,263	130	5,930	61	14,669	53,123	2,900	8,926	56,004	1908
1909	234	10	186	309	174	135	18,442	23,688	109	10,021	105	5,075	60	17,085	56,469	3,559	9,213	57,640	1909
1910	237	20	172	310	163	147	19,190	25,077	104	8,498	94	5,552	60	16,757	55,884	3,593	8,618	55,855	1910
1911	236	43	163	308	137	171	19,505	27,290	98	7,852	87	5,395	57	16,017	56,554	3,686	7,967	56,055	1911

* Separate figures of deposits not available until the year 1905.

The latest figures published by the I.A.O.S. (in their Report for the year ended 30th June, 1912) are those for the year ended 31st December, 1911. It seems probable that little material change has taken place in the figures of the movement in the interval of time which has since elapsed; we therefore think it desirable to deal with them in some detail.

Existence of a considerable number of merely "skeleton" Credit Societies.

299. From the figures in the Table given opposite it will be seen that on the 31st December, 1911, the number of Credit Societies included in the I.A.O.S. Report was 236. Of this number, however, 43 (or almost one-fifth of the total) were recorded as having ceased to exist or as having not yet commenced operations. Of the remaining 193, 163 furnished figures to the I.A.O.S., while only 137 furnished their Annual Returns to the Registrar of Friendly Societies; this being a decrease of 56 in the number of Societies thus complying with the Statute as compared with the year 1905, when 193 Societies sent in Returns.

In 1911 there were 308 Credit Societies on the books of the Registrar of Friendly Societies for Ireland, who informed us that there was sufficient evidence to satisfy him that at least 106 of these 308 Societies did no business whatever during the year 1911. This large number of merely "skeleton" Societies is, in your Committee's opinion, a very serious defect in the organisation of the movement. We note that during the five years ending in 1911, the I.A.O.S. reported 50 Societies as having ceased to exist.

In our opinion, 176* would represent, at the outside, the number of Credit Societies now in actual operation in Ireland, many even of these being in a state of stagnation.

Increase in total deposits, but smaller number of Societies possessing deposits.

300. In spite of the decrease of Societies reported as in actual operation from 217 in 1910 to 193 in 1911, the deposits continued to show an increase, and reached £27,290, the highest point attained since the commencement of the movement.† As will be seen later when we deal specifically with the question of deposits, the surest sign of the stability of a Society and of the confidence reposed in it is the steady growth of its deposits. So far, therefore, the fact that the deposits in the Societies have more than doubled within the past seven years is an indication of progress. See paras 359-388.

But a closer study reveals a rather striking fact. From an analysis of the figures given in the I.A.O.S. Reports, it appears that in 1905 deposits to the extent of £12,710 were held by 102 Societies; yet in 1911, when the deposits had reached their maximum of £27,290, this amount—which was more than double that of the deposits in the former year—was held by a smaller number of Societies, *i.e.*, 98. The increase, therefore, was due almost entirely to the further accumulation of deposits in some of the Societies already receiving them, and not to a larger number of Societies attracting depositors—a fact to be much regretted in the interests of the movement as a whole. In some Societies deposits have been refused, owing to the capital being sufficient to meet the credit requirements of the district; but Societies in this position form only a very small proportion, we believe, of the total number.

Membership, State Advances, and Loans made to Members in 1911.

301. The nominal membership of Credit Societies for the year 1911 was 19,505, the highest recorded in the history of the movement, being almost 6,500 greater than in the year 1905, when the number of Societies furnishing Returns to the I.A.O.S. was larger by 30. It is thus clear that the advance in recent years both in deposits and in membership has been wholly confined to a certain proportion of existing Societies, whose progress has more than counterbalanced the want of success in other Societies, and the decrease in the number of Societies actually in operation.

The amount on loan from the Department of Agriculture and the Congested Districts Board in 1911 amounted to £13,200 a decrease of £5,500 as compared with the figures of four years previously. We understand that this is mainly due to the fact that since the year 1908 fresh advances from State funds to these Societies have almost, if not entirely,

*On the Map facing p. 386 we have inserted the names of these 176 Credit Societies.

†For the year 1912 the total deposits were, we understand, £30,468, held by 110 Societies.

See paras.
553-565.

ceased ; while outstanding loans to Societies have fallen due and have been repaid in the normal way to the Departments concerned, or been otherwise recovered. We shall deal in a separate Section with the advantages and disadvantages of State financial assistance of this nature.

The total number of loans granted by the Societies to members in 1911 amounted to 7,967, a decrease of 651 upon the previous year ; although the amount of these loans, £56,055, showed an increase of £200. The total amount of loans granted to borrowers by the various Credit Societies in the 17 years ending 1911 amounted to almost £500,000, a sum which, even allowing for mere renewals of loans, must have been productive of much benefit to many of the smaller agriculturists, especially in the poorer districts of the country.

SUMMARY.

302. The following is a summary of the chief facts in the above outline of the history of the co-operative credit movement in Ireland :—

Paras. 277, 284.

(a) Considering the difficulties in connection with the establishment of a movement of this nature, the progress made in the initial years in Ireland compares favourably with that attained in the early years in Germany, while on the other hand it falls far short of the remarkable progress made in other countries where co-operative credit has been first initiated in comparatively recent years.

Paras. 288, 301.

(b) From the year 1898 onwards a considerable proportion of the funds of the Societies has been furnished by the State. In the year 1902, 58 per cent. of the funds came from this source. The proportion in the year 1911 had fallen to 24 per cent. as against 48 per cent. in deposits, a very considerable movement in the desirable direction of complete independence of State loans.

Para. 300.

(c) Although the deposits of Societies increased from £12,710 in 1905 to £27,290 in 1911, the number of Societies recorded as holding deposits has remained practically stationary during the same period.

Paras. 289, 291,
293, 295-299; also
Table on p. 128.

(d) An increasingly large number of Societies on the books of the Registrar of Friendly Societies have failed to furnish their statutory Annual Returns. In the year 1911, 171 Societies out of 308 upon the Registrar's books, and 56 Societies of the 193 returned by the I.A.O.S. as in operation, failed to do so. The existence of such large numbers of merely skeleton Societies is a serious defect in the organisation of the movement. After careful investigation, we believe that 176 would represent, at the outside, the number of Credit Societies now in actual operation in Ireland, and that even of these many are in a state of stagnation.

Para. 290.

(e) The I.A.O.S. have frequently had to call the attention of Societies to the undesirable habit of renewals of loans to borrowers, this breach of the Rules being probably the most potent cause of the unsatisfactory position of many Societies.

Para. 297.

(f) As a result of an inspection made in the year 1910 by an officer of the Department of Agriculture of 103 Societies then holding loans from the Department, 22 Societies, or a little more than one-fifth, were returned as satisfactory, 36 as fair, and 45 as unsatisfactory.

Para. 301.

(g) The membership of the movement in the year 1911 was reported as 19,505, the largest number recorded. On the other hand, the number of Societies returned by the I.A.O.S. as in actual operation in that year was only 193 as compared with 267 in the year 1908, a decline of 74 Societies in three years.

Para. 301; also
Table on p. 128.

(h) The total loans granted during the seventeen years ended 1911 amounted to about £500,000, the recent average being £55,000 per annum. Even allowing for the amount probably covered by mere renewals of loans, these credit facilities must have been productive of very considerable benefit, especially in the poorer districts. Contrasted, however, with the credit needs of the large body of small farmers and agricultural labourers throughout the country, the present scope of the co-operative credit movement, after twenty years of organisation, is extremely limited.

Having completed the above outline of the progress and present position of the Co-operative Credit movement in Ireland, as shown by its published figures, we now proceed to deal with the evidence which we have received in regard to the system. We propose, as already indicated, to treat separately each of the more important branches of the subject, with the particular issues involved. In doing this we shall, under each heading, refer not only to the evidence furnished to us by witnesses in regard to Irish conditions, but also to the lessons of rural credit organisations in other countries, in so far as such seem to have a direct bearing upon the subject matter of our Inquiry.

(b.) THE LIABILITY ATTACHED TO MEMBERSHIP OF CO-OPERATIVE CREDIT SOCIETIES.

One of the most important subjects which we have had to consider in connection with co-operative credit in Ireland is that of the basis of unlimited liability of members upon which the existing Credit Societies are formed,* and the question as to whether the continued adoption of this principle, or that of limited liability, or a combination of both systems, seems to offer the greatest prospect of success in this country.

TYPES OF LIABILITY IN CONTINENTAL CREDIT SOCIETIES.

303. The whole history of the origin and growth of the various types of liability adopted by co-operative credit institutions upon the Continent and elsewhere has been very fully dealt with by several writers upon the subject. The more important of these works in English are included in the Bibliography published with our Report. See pp. 387-390.

Generally speaking, there are on the Continent two main divisions of Credit Societies ; one based on the principle of considerable share capital, combined with either " unlimited " or " limited " liability ; while the other is founded on the principle of " unlimited " liability rather than upon shares. Under the latter system the shares are of a comparatively small amount. In both cases, the new form of financial security introduced by the promoters of the movement lay in the collective liability of the members of the Credit Society for all obligations incurred by the Society. Another, but relatively unimportant, system is that of unlimited contributory liability.

Limited Liability Societies.

304. The former system, based on share-capital, and associated chiefly with the names of Schulze-Delitzsch in Germany and Luzzatti in Italy, is, generally speaking, found on the Continent in the majority of Credit Societies operating in towns and urban areas ; members of these Societies are, to a large extent, artisans, small tradesmen, &c., with, however, as we shall see, a considerable proportion of agriculturists in many cases. This type of Society came into existence at about the same time as the rural Credit Societies of the Raiffeisen system. Until limited liability became legalised in Germany in 1889, both systems had perforce to adopt the unlimited liability principle. All Credit Societies affiliated to the Raiffeisen Federation are constituted on the unlimited liability basis. Para. 311.

In Germany, where Societies of both types have had their greatest development, a member of a limited liability Society undertakes, over and above his liability to pay in full, if called upon, the nominal value of his share or shares, a liability to pay in addition a fixed sum on each share held. The amount of this fixed sum, as well as the maximum number of shares which a single member can hold, must be decided upon at the creation of the Society by a general meeting of the members, and must be set forth in the registered Articles of Association. In addition, the amount, and any change in the amount, must be duly published, and no increase can be legally made without the permission of three-fourths of the members present at a general meeting. No member can take up an additional share until his previous share or shares have been fully paid up.

305. If the nominal value of a share be £1, with an additional liability, say, of £5, a person who took up five shares would not only be liable for £5 in respect of these shares, but would undertake a further liability of £25. " By a very important provision in the Act,

*The only Credit Society in Ireland working upon the basis of limited liability is that at Ballindaggin, Co. Wexford (see paras. 339-40).

the actual liability of members is, in effect, considerably reduced. When, apart from suspension of payment, the indebtedness of a Society is disclosed in the balance sheet at 25 per cent. of the collective liability assumed by members in respect of their holdings in shares, the Committee of Management must move the Court for the commencement of proceedings in liquidation; in other words, one-fourth of the liability undertaken is risked in normal cases of default.”* In the event of a Society’s bankruptcy, no contribution can be claimed from a member beyond the liability attached to his share or shares, and contributions must be levied on all the members proportionately to their share holdings, unless the Articles have adopted another principle for allocating such contributions.†

Unlimited Liability Societies.

306. The second type of Credit Society, distinguished mainly by the absence of any considerable share capital, and by unlimited liability, is chiefly associated with the names of Raiffeisen in Germany and of Woollemborg in Italy. These Societies usually operate in rural districts amongst small holders of land, the status of all the members being generally much on the same level. In Germany the members of these Societies, in addition to their liability to pay in full the nominal value of their shares—shares being obligatory under the German law—undertake direct liability for the engagements of the Society, and to its creditors, to the extent of the whole of their property. This unlimited liability is individual and collective, any deficit in the case of a Society’s bankruptcy being recoverable by means of a *per capita* levy upon the members. But proceedings by creditors against individual members are, under the Co-operative Societies Act, permissible only when, after the lapse of three months from the date on which the contributory claim on members is declared executable, such claims have not been satisfied. Should, however, judgment be obtained after this period by a creditor against any member, the latter retains his right to sue the Society for the amount he has been forced to pay; if his claims are not duly met by the Society, he may then take action against any other solvent member or members.‡

As already pointed out, in both the limited and unlimited systems the underlying idea is that a number of persons who would individually find it difficult or impossible to find credit may do so with comparative readiness and safety by making themselves jointly and severally responsible for repayment, by means of a collective guarantee based on personal security.

Unlimited Contributory Liability.

307. Another form of unlimited liability, introduced into Germany by the act of 1889, is termed *Unlimited Contributory Liability*. It differs from that of ordinary unlimited liability only in the fact that, while in the case of the bankruptcy of a Society *per capita* contributions may be levied, no direct proceedings against single members can be taken by creditors; whereas if an ordinary unlimited liability Society becomes bankrupt, the property of individual members may, after three months, be individually attached by unsatisfied creditors. “The possibility of such lengthened and tedious procedure for enforcement of claims being obviously not calculated to improve the credit of Societies, the disinclination to adopt this form of liability may be readily understood.”*

We now proceed to consider the apparent advantages and disadvantages of the principles of unlimited and limited liability, respectively, in co-operative credit, and to state our conclusions, based both upon the verbal evidence which we have received during our sittings, and upon the experience of other countries. No greater error, however, can be committed in dealing with economic questions than to argue that because a certain system is found to suit the conditions of one country, it may therefore be transplanted with fair prospect of success to another country.§ It is, we believe, especially necessary to take this important consideration into account in dealing with the particular problem of liability.

Limited Liability not legal in Germany until 1889.

308. In dealing with the question of limited *v.* unlimited liability it must be borne in mind that at the time when Schulze commenced his great work in Germany in 1850, by forming his first Credit Association, the principle of limited liability was then not known—

*See *Report on Agricultural Credit and Co-operation in Germany*, p. 82.

†See translation of *German Co-operative Societies Act* on pp. 2-19 of Appendices to above-mentioned Report.

‡*German Co-operative Societies Act*, Secs. 119-125.

§“It is highly important that we should not rush into any new plans simply because they have worked in Europe.” (*Majority Report of American Commission on Agricultural Co-operation and Rural Credit in Europe*; Senate Document, 261,—1914, p. 18).

not even in England—nor was it recognised in Germany till the year 1889 (six years after Schulze's death), when the new German law removed the previous necessity of unlimited liability for Co-operative Societies, and allowed instead an option between the three different types already described. However, both Schulze and his followers made it clear that in their opinion the question of the nature of the liability to be adopted involved no point of principle. In 1894 the Schulze Congress passed a resolution favouring limited liability, and in 1896 formally declared Societies formed on this basis to be eligible as members of the Union.* The present leader of the Schulze-Delitzsch Federation "holds that the question of the superiority of unlimited over limited liability may not be determined absolutely; that it depends upon conditions prevailing in particular places, but that, in the first instance, until a Society has reached a certain degree of development, unlimited liability is in general to be preferred."†

*Tendency to emphasise unduly the advantages of Unlimited Liability in
Co-operative Credit.*

309. We believe that in Ireland, as elsewhere, there has been from the beginning of the movement a very decided tendency to emphasise unduly the advantages of unlimited liability for rural Credit Societies, as against limited liability. Various criticisms of this tendency have from time to time appeared. For instance, Mr. Wolff speaking at a meeting of the Surveyors' Institute in 1910, after the reading of a paper on Agricultural Credit by Mr. R. M. D. Sanders,‡ said that he was sorry to see that the speaker—

"intentionally or unintentionally, appeared to lend countenance to the very heretical supposition unfortunately favoured in this country, that the Raiffeisen banks were the only type of banks qualified to prove of service to agriculture, and that the far more richly endowed and more active and business-like Schulze and Luzzatti banks were purely 'town banks.' That was a great mistake. The Schulze and Luzzatti banks had advanced, and still advanced, very materially larger sums to agriculture than the far more numerous but incomparably smaller village banks of the Raiffeisen and Woollemborg type. The peculiar distinction and distinctive glory of the Raiffeisen banks was that they could stoop down to the lowest grade of the social or economic scale, and come to the relief of the very poorest. But they were not at all adapted to the cases of our own medium and larger farmers. To such they could bring the desired help only by means of banks of the Schulze or Luzzatti type. Unlimited liability—retained in a steadily declining degree in Germany, avowedly as a German tradition—was not by any means indispensable to them. Limited liability had been made permissible in Germany . . . only in 1889; and from that date forward the number of limited liability banks of the Schulze-Delitzsch type has kept slowly but steadily increasing."§

Views of Mr. Henry W. Wolff on limited liability.

310. In the Preface to his *Co-operative Credit Bank Handbook*, Mr. Wolff further emphasises the injurious results of this tendency to exaggerate the advantages of unlimited liability for the purposes of rural credit.

"A quite unwarrantable impression appears to have got abroad to the effect that Co-operative Banks with shares and limited liability are applicable only to towns, and that for rural purposes and the service of agriculture only the peculiar system can come into account which dispenses with shares and makes liability unlimited.

"There could not be a greater mistake. And were the impression to become general, serious prejudice would be done to agriculture.

"In truth, calling and occupation have nothing whatever to do with the distinction. Indeed, the formation of any banks solely for one kind of occupation ought to be avoided on principle. The more varied is the membership of a Co-operative Bank in respect of occupations, the better able will the Bank be to cope with its work, since the abundance of one calling will meet the want of another.

"As a matter of fact, so far as the amount of money supplied comes into account, banks with shares and limited liability have rendered far more substantial assistance to agriculture than the others. And in this country of all others they appear indispensable, if banking work for the benefit of agriculture is to be done on a large scale."||

When asked at our sittings as to which of the systems, unlimited or limited, he preferred for a rural country, Mr. Wolff replied:—

"It depends entirely upon the circumstances. The system that the I.A.O.S. has adopted here, without shares, with unlimited liability, is admirable for very small people—people who have not got much capital. When you come to larger farmers, I should greatly prefer the share principle—coupled with limited liability, of course."

7082.

*See e.g., *People's Banks* (H. W. Wolff), p. 85.

†*Report on Agricultural Credit and Co-operation in Germany*, p. 83.

‡For Mr. Sander's evidence during present Inquiry, see Minutes of Evidence, pp. 102-8.

§See *Transactions of Surveyors' Institution*, December, 1910, pp. 90-1.

||*In loco cit.*, p. xi.

We observe that since giving this evidence, Mr. Wolff, in a letter to the *Irish Homestead* of December, 1912, wrote—

“ In my ignorance of local circumstances—which must, of course, in any case govern the case—I argued on the assumption that the men to be benefited are in circumstances in which no other means of providing the requisite adequate securities are practicable except unlimited liability. It is in such cases that unlimited liability, in the Raiffeisen application, is resorted to. But now you talk of the men as ‘ farmers with farms, either bought out or in which they have a substantial interest,’ worth probably a great deal more than in an emergency they are likely to be called upon to make good. That, indeed, does not fully meet my point. For it is one thing to have assets in a locked-up form and another to hold them in a liquid form, such as creditors look for. But why, if your people are so substantial, object to shares of a fair value to be gradually paid up? That would place you financially, on a different footing altogether, with far greater freedom of action, while leaving you full liberty to adopt the Raiffeisen, that is the co-operative spirit in practice. Speaking with diffidence and not knowing the local circumstances, I should say that yours is indeed a case for limited liability societies under the Industrial and Provident Societies Act, taking Banking powers, which involves non-withdrawable shares.”

Increasing number of Limited Liability Credit Societies on the Continent.

311. Since 1896 the number of limited liability Societies has steadily increased in Germany. It appears that in 1911, out of a total of 952 Schulze Societies, 385, or over 40 per cent. were based on this principle. The following figures,* showing the occupations of the membership of the Schulze-Delitzsch Societies in Germany in the year 1912, are of interest :—

	Percentage.
Independent agriculturists (farmers, &c.)	26·61
Wage-earning agriculturists (labourers, &c.)	2·42
Artisans	22·80
Merchants, Manufacturers, &c.	19·00
Workmen, apprentices and wage-earners generally	11·30
Professional men, Civil Servants, Clerks, etc.	9·09
Persons living on pensions or possessing independent means	8·78
	100·00

It will be seen that although these Schulze Societies were mainly devised to suit the needs and economic character of dwellers in the towns, yet they have been largely utilised by the agricultural classes ; in fact, the single class most largely represented in the membership is that of independent agriculturists, holding small or medium sized farms.

In regard to co-operative agricultural credit in Austria-Hungary, it appears that “ at first in the Schulze-Delitzsch Banks unlimited liability was the rule, but from 1882 onwards this was less and less frequently adopted, and now new banks are founded almost exclusively with limited liability. In 1912 there were 2,996 banks with limited liability, and 603 with unlimited liability.”†

Sir F. A. Nicholson writing in 1895 of the Schulze Societies and the principle of unlimited liability, said :—“ It is doubtful if this solidarity is essential to success. In Austria it is not compulsory, and only half the Societies have adopted it ; in Italy, where the success approaches that of Germany, it is practically unknown in the Popular Banks.”‡

Liability in excess of share liability.

312. Another point to be borne in mind is that limited liability on the Continent does not necessarily imply, as it does in Great Britain, liability limited to the actual value of the shares taken up. In some Societies the liability incurred by a member rises to two, four, or even six times the value of the share. In Saxony and in Pomerania, where 76 per cent. of the limited liability Societies of Germany are found, the liability is 40 and 42 times the value of the share, respectively. In Saxony the share is 5s. with a liability of £10, and in Pomerania, 6s. with £12 10s. liability.

Schulze-Delitzsch was anxious to obtain as large a share capital as possible with the object not only of ensuring large credit for his banks, but also of inducing each member to adopt a long course of saving. His Societies have, accordingly, been aptly termed “ compulsory Savings Banks.” He advised shares of £20, £30, and £50 in amount ; but these large shares have been found at times to possess several disadvantages.

*See *An Outline of the European Co-operative Credit Systems*, (Rome, 1913), p. 28.

†*Ibid.* p. 49

‡Report regarding the possibility of introducing Land and Agricultural Banks into the Madras Presidency (1895).

Unlike the Raiffeisen Societies the Schulze-Delitzsch Societies have a rather extended area of operations ; they accumulate a fairly large amount of capital, and distribute comparatively high dividends ; their management is paid ; and in many ways they resemble ordinary banking business concerns.

Share liability in France and Italy.

313. In France and Italy the shares issued are usually small, ranging from £4 down to a few shillings, but averaging about £1 or £2. These shares have usually to be paid up in ten equal monthly instalments. In France the law allows the utmost possible latitude to the Societies in deciding by their rules the nature and extent of the liability of the members. In the majority of cases the Societies have decided that the members shall be liable up to the amount of the shares subscribed. Some have adopted a wider liability, either the unlimited liability of all the members, or the unlimited liability of a certain number of the members (as, for instance, the members of the Committee of Management), or a liability amounting to from two to four times the nominal value of the shares.

The basis of liability in the Luzzatti Popular Banks of Italy is thus referred to by Mr. C. R. Fay :—

“ The liability of the shareholders is limited. Unlimited liability was a kind of fetish to Schulze-Delitzsch, the *sine qua non* of all co-operation. Luzzatti had the genius to see that, though suited to the Germans, who had been accustomed to it since the establishment of Land Banks with unlimited liability and compulsory membership by Royal decree in the middle of the 18th Century, it was alien to Italy, where organised credit was unknown and where there were greater extremes of rich and poor who could not have been induced to co-operate on a basis of unlimited liability. The Italian Banks were saved from the doom pronounced by Schulze-Delitzsch on any other than an association of unlimited liability, namely, an impossibility of commanding outside credit, by the readiness by which the communal savings banks and the Friendly Societies recognised them as a secure investment for their funds. The shares in Italy are smaller than in Germany, averaging 40 lire, but they must be paid up within a time limit, usually ten months.”*

REASONS FOR PREPONDERANCE OF UNLIMITED LIABILITY IN GERMAN CREDIT SOCIETIES.

314. About 92 per cent. of the rural Credit Societies of Germany have adopted the principle of unlimited liability. This great preponderance is undoubtedly due in some degree to the fact already mentioned that until so recently as the year 1889 limited liability was not possible under German law, while the movement for the formation of Co-operative Credit Societies had been initiated by Raiffeisen and Schulze-Delitzsch forty years before. It was natural, therefore, in view of the legal position, and of the considerable start thus given to the unlimited liability system, that progress should continue upon the lines thus established.

But this reason alone would not suffice, we think, to explain the large preponderance of the unlimited form in Germany. The advantages of the unlimited principle are succinctly set forth in the following paragraphs of Mr. Cahill's Report :—

“ By offering as security for its engagements the full amount of the property of its members, a Society with this form attracts savings deposits more readily, and improves its credit in the eyes of bankers and others from whom it may be necessary to borrow. Societies with limited liability may only be held responsible up to the aggregate of the special liability (as stated in their Articles) attaching to each share taken up by members ; but it cannot be readily known to what extent that aggregate may be already exhausted by reason of prior claims. Depositors, therefore, or other creditors (*e.g.*, for agricultural requisites supplied) may find in case of default that the amounts due exceed what is recoverable under the terms of the liability of members.

“ Rural Co-operative Banks work with considerably over 90 per cent. of loan capital in the shape of deposits from members and non-members and advances from their central organisations ; but these resources may not be obtainable, if their eventual recovery does not appear absolutely secured. The management and supervision on the part of the organs of administration and of the members is likely to be more careful, when there is the consciousness of unlimited liability. While, too, the equality of the members as members is emphasized—each member may legally take up only one share—the vigilance of the more substantial is kept more alert by the knowledge that not merely a fixed, and perhaps for them not a vitally large amount, but their whole possessions are involved.”

In regard to the much-debated question of the risks attached to the unlimited principle, the Report goes on to say :—

“ While for members of large urban societies such as are those affiliated to the Schulze-Delitzsch Federation, unlimited liability may present certain dangers, there is, in fact, little risk of members incurring great loss by reason of unlimited liability in a rural Credit Society. Its area is limited to at most a few

*See *Co-operation at Home and Abroad*, p. 65.

parishes; the members are acquainted with the general character and circumstances of their fellow-members; supplementary working capital to a moderate amount is mainly advanced on the security of promissory notes backed by sureties on mortgages, or on deposit of first class securities, so that if the borrower proves insolvent the loan is well covered; the collective knowledge possessed by the Committee of Management and the Board of Supervision and their collective surveillance are not likely to prove at fault.

"There is no incentive to undertake speculative or risky business—speculative business is, in fact, expressly forbidden by the rules of the majority of Societies—with a view to large profits, dividends being either not paid at all or being at the most quite small, and working expenses inconsiderable. The Committee and the Board are, in the first instance, legally responsible to the Society to the full extent of their property when losses occur as the result of their not exercising the 'prudence of ordinary business men' to the affairs of the Society; and finally, there is the further safeguard of the audit which must be carried out at least once within every two years."*

Stability of both forms of Credit Societies in Germany.

315. The remarkable financial stability of Co-operative Credit Societies of both types of liability may be seen from the fact that in the years 1909 and 1910, out of over 15,000 Societies then in existence in Germany, no rural Credit Society with unlimited liability, and only three with limited liability became bankrupt. A German authority computes that failures between the years 1895 and 1905 were proportionately fifty-five times more frequent in Germany among private credit institutions than among the rural Credit Societies.†

In spite of the great prominence on the Continent of the unlimited liability type of rural Credit Society, the limited liability basis has, as we have shown, in several countries made of recent years very considerable progress; while writers on the subject have also frequently questioned the applicability of the unlimited system to the economic and social conditions existing in the greater portion of the British Isles, where agriculturists of varying status are usually to be found in the same district. Again, the principle of limited liability has become so widespread and popular, and indeed obligatory, in business and commercial concerns in this country since the passing of the Limited Liability Acts that the unlimited principle is viewed by many with some hesitation, and often with alarm.

Your Committee have therefore paid considerable attention to those cases where the principle of limited liability has been adopted for the purposes of rural Credit Societies in other countries, and the reasons in each case for its selection.

Preponderance of Limited Liability Societies in Saxony and Pomerania.

316. As showing the impossibility of laying down fixed rules on this question of liability without taking into account varying local conditions, even in the same country, it may be noted that the provinces of Saxony and Pomerania, unlike the rest of Germany, have adopted in the main the principle of limited liability for Credit Societies. Thus out of 740 such Societies in Saxony, 614 were on the limited principle, and in Pomerania 369 out of 508 Societies in the year 1912. In the State of Anhalt, 32 out of 33 Societies favour limited liability. The causes of this state of affairs are instructive, more especially as similar reasons have been given to your Committee by several witnesses to explain the failure in many places of the Raiffeisen Societies in Ireland to attract members from the ranks of the medium and larger farmers, whose aid and example would be very valuable, even if they did not personally require to become borrowers.

"When the Imperial Co-operative Societies Act was passed in 1889, there were but few rural Credit Societies existing in Prussian Saxony, although it was in this province that the first German urban Co-operative Credit Society was established by Schulze-Delitzsch. The land holders had grown distrustful of such Societies because many of those founded in the province on the principles of Schulze-Delitzsch had by their collapse involved many farmers to a very serious extent by reason of unlimited liability. The burden of settling with creditors had fallen with especial severity upon land-holding members, whose assets were more tangible and not capable of surreptitious transfer to others. The rural co-operative movement did not, therefore, show signs of much progress, although the Raiffeisen Federation had succeeded in establishing by 1890 a certain number of Credit Societies with unlimited liability.

"It is noteworthy, as indicating the former mistrust of the Saxon land holders towards Co-operative Credit Societies, that, while in most parts of Germany Credit Societies were the first to be established, in Saxony productive and supply Societies preceded Credit Societies. By the Act of 1889, the adoption of limited liability was first made possible, and dairy and other societies were then founded in Saxony on this basis. The movement for the erection of Credit Societies followed about 1893. To overcome the mistrust of the agricultural classes, limited liability was adopted. In societies with unlimited liability cash payments upon shares are the same for all members, but the liability in case of failure may fall much more heavily upon the larger than the smaller land holders or other members.

**Report on Agricultural Credit and Co-operation in Germany*, pp. 83-4.

†*Ibid*, p. 84. The recent disastrous failures in Hesse are referred to in paras. 406-9 and 430-1 of our Report.

"In Saxony large, medium and small properties are fairly evenly distributed; and it was decided to adopt a method that should take account of the actual circumstances of each member. The wealthier members were not to be burdened with liability for the benefit of those less well-to-do, or the latter for the default of the former, while the advantages were apportioned roughly according to liabilities undertaken and share capital paid up. Thus each member was obliged to take one share of five shillings for every shilling of supplementary land tax (payable upon estates of over £300 assessed value) levied, and to undertake liability of £10 in respect of every share taken. In order, however, to prevent members exceeding in the amount of their liability their actually realisable assets, a limit is set to the number of shares that may be held; and the credit accorded to each member is fixed on the basis of his liability."*

Security afforded by Limited Liability Societies on the Continent.

317. The objection most frequently urged against limited liability by writers on the subject—and the same argument was used by some witnesses who appeared before us—was that under this system a Credit Society may not so easily be able to obtain deposits and other requisite working capital from outside sources owing to a supposed diminution of the security offered by the Society in comparison with the security afforded by an organisation based upon the unlimited liability of all its members. Regarding this point the above Report states:—

"The experience of Saxony and Pomerania has not shown that their Societies have suffered on this ground. In fact, this form of liability constitutes in the circumstances and as practised in these provinces a credit basis approximately equal to that of unlimited liability. The security represented by a Society with limited liability in which members are required to take up shares and liability in proportion to their means represents an effective value closely approximating to that of a society with unlimited liability. In these two provinces the economic situation of the bulk of the members strengthens this effective value; in Saxony, which contains probably the most extensive consolidated area of rich agricultural land in Germany, the societies have attracted medium and larger landholders in considerable numbers; and the Pomeranian Societies also include a noteworthy proportion of the more substantial inhabitants of their districts. In both provinces the societies succeeded almost from the first in attracting considerable deposits."†

In both Saxony and Pomerania it is usual to lend to a borrowing member up to three-fourths of his liability on his share or shares, on his own sole bill without sureties.

Views of Dr. O. Rabe and Dr. Haas in regard to Limited Liability.

318. Much useful information in regard to various aspects of rural credit is to be found in *Notes on Agricultural Co-operation and Co-operative Agricultural Credit in Germany*, by Mr. H. de F. Montgomery, D.L., which has been issued as a Bulletin by the Department of Agriculture. In this memorandum Mr. Montgomery inserts a portion of a letter received by him from Dr. O. Rabe, on the question of limited liability Societies in Prussian Saxony. Dr. Rabe states:—

"Limited liability is the basis of the extension of the co-operative movement in the Prussian Province of Saxony, not only as regards co-operative credit societies, but also productive co-operative societies, e.g., creameries, distilleries, starch factories, and co-operative societies for sale, such as corn storage societies.

"Till the year 1889, when the Co-operative Societies Act (*Genossenschaftsgesetz*), made the establishment of co-operative societies with limited liability possible, the number of agricultural co-operative societies in the province was very small, and would not have increased, as the numerous failures of urban loan banks, founded on the basis of unlimited liability, had scared the rural population from forming co-operative societies. Raiffeisen, who founded the first rural co-operative society on the Rhine in the middle of the last century, had to do with more equal conditions of property. For our province, where there is a mixture of large, medium, and small properties, unlimited liability is not suitable, as it puts too heavy a burden on the man of property for the benefit of those of smaller means.

"The view that unlimited liability *co ipso* confers greater authority and credit on co-operative societies is not correct. For what does a co-operative society with unlimited liability represent when, as a general rule, only persons of small means have joined as members? On the other hand, with limited liability the limits of what the society is 'good for' are clearly placed before the public, and the credit of the society within these limits is strengthened, if the liability of the society is founded upon a correspondingly safe foundation. On the other hand it becomes possible for the co-operative society, as such, to keep the credit granted to individual farmers within sound limits corresponding with the needs of his business. In Prussia, we have in our taxation laws the condition precedent to the establishment of a sound basis."‡

Para. 613.

The late Dr. Haas pointed out that a very substantial majority of the Savings and Loan Banks of Germany were based on unlimited liability, the provinces of Prussian Saxony and Pomerania forming the main exceptions. He added:—

"The form of limited liability existing in Prussian Saxony and Pomerania, however, approaches for practical purposes very closely to unlimited liability. The amount of shares and liability guarantee to be taken is not left to the free will of the members, but compulsorily apportioned to the means of the

*Report on *Agricultural Credit and Co-operation in Germany*, pp. 84-5

†*Ibid.*, p. 85.

‡*In loco cit.*, p. 34.

individual members. In the Province of Saxony the obligation exists to take one share and to guarantee 200 marks for every 2,000 marks of property assessed for property tax. A similar result is attained in Pomerania by the rule that for every four marks income tax a member pays he is required to take one share and guarantee 250 marks.

"With such a distribution of guarantee liability in exact accordance with the extent of the property and the paying capacity of each member, approximately as great security and good credit has been attained by the co-operative societies as with unlimited liability."*

Reasons for adoption of Limited Liability in Pomerania.

319. The late Chairman of the Pomeranian *Verband*, Herr von Knebel-Döberitz, in his introduction to the model rules for Pomeranian Co-operative Societies and Loan Banks, dwells upon the reasons for the adoption of limited liability in Pomerania.

We take the following extracts from this preface :—

"This form (the unlimited) is to be recommended where property is equally distributed, and where a guarantee to the extent of the whole of it is required to obtain the necessary amount of credit. If these conditions are absent, one may and must work with the less risky form of limited guarantee. The nature of this is that every member only gives a guarantee to the extent of a limited part of his possessions of which he knows the exact amount when he joins; and that while in the case of unlimited liability each member has one share, under our system he can acquire more than one.

"Accordingly, in Western Germany, where property is very widely and equally diffused, and where a widely developed co-operative movement existed before the law permitted any form other than unlimited liability, the system of unlimited liability was adopted. The distribution of property in Pomerania is quite different. Here we have large landowners, middling landowners, small landowners, clergymen, schoolmasters, officials, artisans, labourers—extremely diverse magnitudes—to be brought into the same credit society. Here, therefore, the conditions precedent for unlimited liability do not exist. Our societies founded on limited guarantee have never found any difficulty in obtaining all the credit they want. So, under such circumstances, we recommend the system of limited guarantee. Such a system would not be fair if a large landed proprietor only took one four-shilling share, like a labourer, and only guaranteed the same amount. So it is laid down in Section 37 of the rules that each member must take shares in proportion to his income tax."†

Detailed figures are then given showing what would be the losses which would fall upon a cottager, a yeoman farmer, and a large owner, in the event of the failure of a Credit Society under (a) the unlimited, and (b) the limited liability principle, and emphasis is laid upon the fact that under the limited system contributions are made in exact proportion to the means of the members. Herr von Knebel-Döberitz proceeds :—

"Is it not juster and more Christian under conditions like those of Pomerania to work with limited guarantees? As the law obliges liquidation to take place as soon as the debts of the society amount to 25 per cent. of the collective guarantees, only one-fourth of anyone's guarantee is really risked. The creditor of such a society is in the safest position possible, if the guaranteed amounts are rationally fixed. In practice the question is unimportant, as since 1847 no single co-operative credit society founded on Raiffeisen principles has gone into liquidation; nor in Pomerania, where we have been working under the limited guarantee system since 1888, has a guarantee been called upon in a single case. The choice of the form of guarantee is not a question of principle, but merely of expediency. So much dust has, however, been raised about it that the case in favour of our system must be stated."‡

REPORT OF COMMITTEE ON CO-OPERATIVE CREDIT IN INDIA.

320. Another illustration from the experience of foreign countries in favour of allowing as much latitude as possible in the selection of the basis of liability to be adopted by Credit Societies, so as to fit in with varying local conditions, is to be found in the important Report of the Committee on the establishment of Co-operative Credit Societies in India, which was issued in 1903. This Committee was presided over by the Hon. Sir E. F. G. Law; the other members consisted of Sir F. A. Nicholson, C.I.E., &c., Member of the Board of Revenue in Madras (author of the famous Report on Co-operative Credit issued in 1896); Mr. J. B. Fuller, C.I.E., &c., Secretary to the Government of India in the Department of Revenue and Agriculture; the Hon. Mr. J. Wilson, I.C.S., Settlement Commissioner in the Punjab; Mr. Reginald Murray, Manager of the Commercial Bank of India, Calcutta; and Mr. H. Dupernez, I.C.S., District Judge, Cawnpore. In their Report the Committee state :—

"We consider that hard and fast rules for the institution of Co-operative Credit Societies throughout India cannot be laid down, since due regard must be paid to the local conditions and circumstances of the various provinces, which differ widely both among themselves, and from the conditions which prevail in Europe. We have not, therefore, found it advisable to attempt to follow too closely the lines of any one of the various systems which have so successfully established themselves in Italy and Germany. Nevertheless we hold that it is possible to indicate in a general manner certain principles which should govern the organisation of all Co-operative Societies."

*Notes on Agricultural Co-operation and Co-operative Agricultural Credit in Germany, p. 39.

†Ibid., pp. 41, 2.

‡Ibid pp. 42, 3.

"On the question of limited *versus* unlimited liability, we consider that it is impossible to formulate any recommendation of a universal character. Limited liability might under some circumstances prove more attractive than unlimited liability, but we recognise that in the historical development of credit the latter came first."

"We consider it desirable that, where the state of the country is sufficiently advanced, and where circumstances permit, Co-operative Credit associations should be founded on a share basis, but we recognise that the system of establishing a Co-operative Society without shares on a basis of joint liability only, might, in some localities and under some circumstances, be found more practicable. Thus we conclude that the form of such Societies may be two-fold; societies on a share basis, and with limited liability, and societies with unlimited liability and without shares. We are of opinion that, as a rule, the former will be found more suitable for urban, the latter for rural societies, but we see no reason why a Society originally founded on the latter basis should not eventually be converted into a society with limited liability on a share basis."*

The Co-operative Societies Act, 1912. (India) which amended the law relating to Co-operative Societies in the whole of British India, followed the suggestion of this Report in leaving the matter open, and made provision for the registration of Credit Societies both with or without limited liability.

The American Farmer and Unlimited Liability.

321. We have not had the opportunity of knowing what final conclusions may have been arrived at in regard to the form of liability most suited to rural credit in America by the Agricultural Commission which recently visited Europe; but in various publications which have appeared in the United States expression has been given to the view that some form of limitation of liability would prove most suited to American conditions. For instance, in a document published last year at Washington entitled "*How we may grant short-time personal credit to the farmers of the United States*," it is stated:—"The average American farmer will not accept the principle of unlimited liability, which is mutual endorsement of financial obligations. . . . I predict that the share capital organisation with limited responsibility will be preferred in America to the co-operative organisation with heavy mutual liability."†

In a recent article on *Agricultural Credit in the United States*,‡ Professor E.W. Kemmerer, of the Princeton University, emphasizes the fact that in the United States "conditions are so widely different in different sections of the country, and among different classes in the same section, that Co-operative Agricultural Credit Societies will need to be given a fairly free hand in such matters as limited or unlimited liability, the amount of share capital, receipts of deposits, &c., so that they may adapt themselves to local needs. A reasonable amount of Government supervision on the part of the banking departments of the States seems desirable."

Adoption of Limited Liability in Canadian Credit Societies.

322. Your Committee have, through the courtesy of M. Alphonse Desjardins, the well-known pioneer of the Co-operative Credit Movement in Quebec, obtained full information in regard to the constitution and working of Credit Societies in that Province. Although in some respects these Credit Societies (now numbering about 105) resemble the Raiffeisen Societies of the Continent, while operating chiefly in towns, they are founded upon the principle of limited liability. In reply to our question as to the reasons for the adoption of limited liability. M. Desjardins gave as one reason, that "the people of the Province would never accept the unlimited principle, whatever safeguards might be provided, their education being quite opposed to such a principle."§

THE GENERAL ADOPTION OF AN UNLIMITED LIABILITY BASIS FOR CO-OPERATIVE CREDIT IN ENGLAND IMPROBABLE.

323. In England several factors contribute to render the success of propaganda in favour of unlimited liability Societies difficult of achievement. In a Memorandum furnished to our Committee by Mr. J. Nugent Harris, Secretary to the Agricultural Organisation Society, Westminster, he states:—

"Experience shows that in England there is great hesitation to take part in a scheme which entails no limit to the liability of individual members. The fact that the liability under the Raiffeisen system is really only nominally unlimited is a point which is not readily appreciated in a country where liability limited by share capital is practically universal in commercial undertakings."

*Report of the Committee on the establishment of Co-operative Credit Societies in India (1747-1903), paras. 5-7.

†Extract from speech of the Honorable Ralph W. Moss, in the House of Representatives, September 11th, 1913, pp. 11, 12. (Government Printing Office, Washington).

‡*American Economic Review*, December, 1912, p. 869-870.

§See also *La Caisse Populaire* (A. Desjardins). Montreal, 1912.

"To meet this particular objection, model rules have recently been prepared for Credit Societies in which the liability of individual members is limited either by guarantee or by share capital, and it will be interesting to see whether this modification will be instrumental in making Co-operative credit become more popular in England and Wales. . . . It has already been attempted to meet the requirements of the small holder by the formation of credit banks on the Raiffeisen principle, but it is recognised that in order to meet the want of credit of those to whom the advantages of a Raiffeisen bank are not sufficiently extensive, credit banks of a larger type and based on liability limited by share capital are urgently required."*

The following is an extract from the copyright rules issued by the Agricultural Organisation Society, Westminster, for the use of Agricultural Co-operative Credit Societies, registered under the Friendly Societies' Act, with *liability limited by guarantee*: "No member or past member shall be liable to pay in contributions or levies a larger total sum than five pounds, unless he has in writing agreed with the Society that he will be so liable for some greater specified amount, in which case his liability shall be limited to the amount so specified."

Rules for Limited Liability Credit Societies, issued by the Board of Agriculture and Fisheries, Whitehall.

324. The Board of Agriculture and Fisheries, Whitehall, have issued a revised set of Model Rules for Credit Societies based on limited liability and registered under the Industrial and Provident Societies Acts. These Rules provide that "no contribution shall be required from any individual exceeding the amount, if any, unpaid on the shares in respect of which he is liable as a past or present member." In an Explanatory Memorandum which accompanied a previous issue of Rules the following passage occurs:—

"So far, in England and Wales, the efforts of the Agricultural Organisation Society and other bodies and persons, as regards the encouragement of Agricultural Co-operative Credit, have been confined to urging small holders and allotment holders to form societies based on the Raiffeisen principle of the unlimited liability of each and all of the members for the debts of the Society. These efforts have met with but little success, for at the end of 1912 there were in England and Wales only 45 Agricultural Credit Societies with 800 members, and a total turnover of £2,000; only 21 of these societies granted loans during the year, the number of loans being 110, and the total amount of loans £1,400.

"One of the chief reasons for the slow progress of the Co-operative Credit movement in this country appears to be that there is a strong objection among all classes to incurring an unlimited liability, and for this and other reasons it seems desirable to draw up a set of model rules for a credit society based on the more familiar principle of liability limited by shares."

The Memorandum went on to say:—

"Another reason why the Co-operative Credit movement has here been of slow growth is that generally endeavour has been confined to establishing such a society among a community of small holders and allotment holders, while in this country such communities, sufficient in numbers to form a credit society within the restricted area which is necessary for its proper working, are comparatively rare, and the circumstances of most English parishes are quite different from those of the countries, such as Germany, France, and India, where the Co-operative Credit movement has been most successful among bodies of owners and tenants of small holdings, living together in considerable numbers.

"It seems desirable, therefore, while retaining the important principle of neighbourhood and knowledge by the members of each other's character, to extend the operations of a society to all classes resident within an ordinary rural parish, by leaving all free to take part in the working of the society, whether they are directly engaged in agriculture or not."

In a letter which appeared in the *Times* of the 22nd February, 1913, Lord Shaftesbury, Chairman of the Agricultural Organisation Society of England and Wales, made the following reference to the question of limited *versus* unlimited liability, in dealing with the reasons for the hitherto slow progress of the co-operative credit movement in England. "Joint and several liability of members forming a Co-operative Credit Society for the whole of the loans and debts of the Society, the particular feature of the Raiffeisen system, may be, and undoubtedly is, one cause. The idea of each member having to be liable for the whole of the loan capital of the Society is, to a certain extent, a stumbling block in this country, although by no means so on the Continent of Europe or in Ireland. If, however, the principle both in its essence and working were better understood it would, I believe, be more readily accepted by agriculturists, and antagonism and opposition to it, very much weakened."

Article in "Journal of Institute of Bankers" advocating limitation of liability.

325. In a recent article on *Agricultural Credit Banks*, by Mr. O. R. Hobson, M.A., the writer, in dealing with the question of unlimited liability for Credit Societies, states:—

"Raiffeisen laid great stress on this for two reasons—first because the peasants with whom he had to deal were so poor that they were unable to subscribe even small shares, and their liability to the extent

*See Appendix 5 to Minutes of Evidence; also *Annual Report of Agricultural Organisation Society (England and Wales)* for Nine Months ended March 31st, 1913, pp. 65, 66, 69, 70.

of their property, representing in most cases little more than the 'equity of redemption' of their heavily mortgaged farms, was therefore the only asset on which to raise the necessary capital; and, secondly, because by this means he hoped to instil into them a fit sense of responsibility and caution.

"Undoubtedly in the circumstances in which he found himself Raiffeisen was right. But it is by no means so certain that the English co-operators are right in following him in this respect. The German farmers, among whom Raiffeisen worked, were so deeply involved in debt already that they had no hesitation in pledging the little that was left to them in return for the chance of freeing themselves from the clutches of the money-lender. The English farmer, on the other hand, is comparatively unversed in credit dealings, and for that reason the more afraid of unlimited liability. Evidence is not lacking to support the view that men who have kept free from debt are apt, however poor they are, to shrink from making themselves liable without limit, however dazzling the prospect of gain may be.

"It would, therefore, seem not improbable that a system of limited liability banks with partly paid-up shares would have the best chance of success in England. This arrangement would have the advantage of giving the bank a small capital to begin with, while there is no reason why the uncalled portion of the capital should not be sufficient security upon which to borrow."*

Report of Land Enquiry Committee.

326. In the Report of the Land Enquiry Committee (1913) the following opinion is quoted as that of one possessing a very wide experience for many years of Co-operative and Agricultural Banking:—"No fabric in any sense of the word comprehensive can ever be built up in this country on the basis of 'unlimited liability.' The man who has much to lose, however anxious he may be to secure an advance, will not incur unlimited liability for the debts of a society some of whose members have little to lose; and the logical result is that, if formed at all, groups will be formed among the better-to-do on the one hand, and among those who have little or nothing on the other hand.

"It is obvious that the latter class of group has little prospect of satisfying the Banks' requirements, and yet this is the very class whose demands for financial assistance are the most pressing. It is, in the writer's opinion, upon the basis of 'limited liability' alone that any comprehensive scheme of Agricultural Credit in this country can be evolved."†

Objection to Unlimited Liability in Scotland.

327. We observe that the recent American Agricultural Commission were informed by the President of the Scottish Agricultural Organisation Society that the formation of Credit Societies in Scotland had been retarded not only by the credit supplied by the Joint Stock Banks even to small agriculturists, but that "an additional cause of delay is perhaps to be found in the fact that hitherto Credit Societies have only been proposed on the Raiffeisen principle, with unlimited liability of their members. Unlimited liability is an unpopular arrangement, and better success may perhaps be looked for in the case of Banks whose members undertake definitely restricted liabilities."‡

The question of the form of Liability one of expediency rather than of principle.

328. In that portion of his Report dealing with the forms of liability, Mr. J. R. Cahill thus summarises the question:—

"The adoption of unlimited liability is not a matter of principle but of expediency. It may well be the case in England that unlimited liability, having been long abandoned in business, may appear so far reaching in its possible consequences that to secure its general adoption might present almost insuperable difficulties to the extension of the co-operative movement. As already observed, the likelihood of rural credit societies restricted to a narrow area and under conditions of management and inspection such as are applied in Germany, involving their members in serious losses, is extremely remote; but for practical purposes consideration might be extended to the prevalent disinclination in this respect.

"The essential point is that members should incur such liability that, in rough proportion to their means and to their utilisation of the services of the society, their interest in its success, as well as an adequate basis of credit for the society, should be secured. This object is attained under the system of limited liability in Saxony and Pomerania."§

The Bulletin on European Co-operative Credit Systems, issued by the International Institute of Agriculture, expresses the following general conclusion in regard to the selection of the form of liability for Credit Societies:—

"In introducing co-operative credit into any country or agricultural district where it has not been previously practised, it is necessary to take the social and economic conditions into account. It must be inquired: Who are the persons for whom the credit facilities are intended? Are they large farmers

**Journal of the Institute of Bankers*, June, 1912.

†*The Report of the Land Enquiry Committee*, Vol. I., *Rural*, p. 426.

‡*Agricultural Co-operation and Rural Credit in Europe* (Senate Document 214), p. 822

§*Report on Agricultural Credit and Co-operation in Germany*, pp. 86-7.

or small cultivators? Are they proprietors of the land they cultivate or only tenants? Are they all approximately upon the same social and financial level, or are there wide differences between them? Do they require the loans for long periods for making permanent improvements, or for short periods for use as working capital? Are they accustomed to borrowing for reproductive purposes, or have they borrowed chiefly for stop-gap purposes? Are they already heavily indebted?

"Upon the answers to these questions will depend, to a large extent, the form of co-operative credit to be adopted. The most important consideration is whether the capital is required by landowners for improving their property, or by farmers to carry on the ordinary operations of cultivation. In the former case the German *Landschaften* furnish a model which should not be difficult to adapt to the circumstances of any other country. In the latter case the Raiffeisen system, or some modification of it, is generally the best, but, in advanced economic conditions, a modification of the less paternal Schulze-Delitzsch system might, perhaps, be adopted with advantage.

"It is also important to enquire whether the persons for whom it is desired to provide credit facilities are approximately on the same social and financial level, or if there are wide differences between them. It cannot be expected, for example, that large farmers will generally be willing to join with small farmers in a society where the liability of the members is unlimited. Where there are great differences of financial status, some limitation of the liability must be adopted in order that it may not press too heavily upon the more well-to-do members."*

ARGUMENT THAT UNLIMITED LIABILITY IS REQUISITE TO ENSURE CAREFUL MANAGEMENT.

329. One of the main arguments used against the principle of limited liability is that it may result in carelessness of management. It is alleged that if a member is aware that in the event of the Society's failure he is personally liable to lose only a limited and known sum, he will no longer interest himself as actively in the proper working of the Society, as he would if he were, through its failure, to incur the risk of losing an indefinite amount. Sir Horace Plunkett, we notice, put this aspect of the question in his evidence before the Select Committee of the House of Lords on the Thrift and Credit Banks Bill in 1910, as follows:—

"Many years ago I used to organise these Societies, and at first, naturally, everyone shied at unlimited liability, but I found that the very moment one of these poor people began to say 'If the worst comes to the worst, I will only lose so much,' he was done. The attitude of mind must be 'Under no circumstances must any risk be run, I shall be ruined if it is.' The moment you begin to say, 'Well, after all it only costs us so much if the bank bursts,' the bank will burst."†

Mr. J. Adams, Organiser under the I.A.O.S., informed us that he would much prefer when organising Credit Societies to ask for unlimited liability as against limited. In reply to a question as to whether members of Irish Credit Societies realised that their liability was unlimited, he said:—"I think in many cases they do. Of course, that is a general question. I should say that some of them realise it and some may not." This witness also gave it as his opinion that a limited liability system would lessen the interest of the members in the working of the Society.

We believe that it is possible greatly to over-emphasise the effect of unlimited liability as a means of inducing proper management. The history of the large numbers of successful limited liability Credit Societies on the Continent does not point to any less care in the carrying on of these Societies than of those on the unlimited basis; nor does the past management of many unlimited liability Credit Societies in Ireland bear out the contention that this form of liability tends to ensure that the members will look closely after their own interests.

Total liability of Credit Societies limited by Resolution.

330. It is the usual practice for the members at a General Meeting of a Credit Society to limit by resolution the borrowing powers of the Committee to a certain sum which cannot be exceeded without further authority being given by a General Meeting.‡ Thus if the limit be fixed at £500, no member would be personally liable for more than that sum. But the fact remains that each person joining is personally liable for the debts of the Society up to the limit fixed, which in the case of the great majority of the members is a responsibility almost fully equivalent to unlimited liability, seeing that the total resources of most of the members would not amount, as a rule, to anything like so large a sum.

DESIRABILITY OF INCLUDING FAIRLY SUBSTANTIAL MEMBERS IN A CREDIT SOCIETY.

331. We observe that Sir Horace Plunkett expresses the view that the unlimited liability system is applicable only where certain economic and social conditions exist.

"It should be noted that this form of association for credit purposes, owing to its peculiar constitution, applies only to a grade of the community whose members all live on about the same scale and that a fairly

*See *An Outline of the European Co-operative Credit Systems* (Rome, 1913, pp. 70, 71).

†See *Report of Select Committee of the House of Lords on the Thrift and Credit Banks Bill* (1910), A. 967.

‡Rule VII. (h), Appendix 22 to Minutes of Evidence.

low one. It is obvious that unlimited liability would lose its efficacy in developing the sense of responsibility if some members of the association were so substantial that its creditors would make them primarily responsible in the event of failure.**

He refers also to the difficulty of reconciling unlimited liability with the presence in a Credit Society of large farmers as members.

"It is very important to keep in very poor communities substantial men out of the Credit Societies, because obviously, the virtue of the unlimited liability would be gone if there was even one really substantial member and ninety-nine ciphers in a Society of one hundred. At the same time it is very important if there is such a substantial man to have him in with the trade. His business advice is enormously valuable, and all classes of the community joining together in their trading transactions is an extremely good thing."**

332. On the other hand, Mr. H. W. Wolff in describing the work of the Raiffeisen Societies in India, and the drawbacks often attached to "dividend-hunting" in Societies possessing shares, says:—

"Registrars accordingly declaim, very naturally—but quite wrongly according to European notions—against allowing members that borrow and members that do not borrow, to continue side by side in the same Society. Why, that is the very thing that we want to bring about! That is why both Raiffeisen and M. Luzzatti distinctly plead for the admission of wealthy people into Societies by the side of poor. Where else is the money—or marketable liability—to come from readily?†

In describing the constitution of the Raiffeisen Societies in Germany, Mr. Wolff further emphasises the great desirability of including better-off members in the Societies. "The association is organised on entirely democratic lines. No difference of any sort is recognised between poor and rich, except that the better-to-do, bearing the brunt of the liability, are by accepted understanding allowed also to take a leading part in the administration. Both on the Committee . . . and on the Council of Inspection . . . it is understood that the better-to-do members (without a sprinkling of whom Raiffeisen would, if possible, have no association formed) should be in a majority."‡

This view in favour of the mingling in Credit Societies of members of different status is also held by M. Maurice Dufourmantelle, who writes:—

"The rural credit bank must only lend to those agriculturists whose standing is of the highest and who would be sure to meet their liabilities. It would be well also that among the borrowers there should be large landed proprietors, as well as the owners of medium-sized and small properties; this mingling can give nothing but good results from a social standpoint, and experience proves, moreover, that societies which grant only small loans realize only small profits, and have some difficulty in concentrating a reserve fund of any importance."§

After careful consideration of all that can be urged for and against the inclusion in a Credit Society of fairly substantial members, such as medium and large farmers, your Committee are of opinion that the balance of advantage is distinctly in favour of the inclusion of this class of member, when suitable persons are willing to join. We believe that the movement in Ireland would have made much more satisfactory progress if a larger number of such members had from the beginning given their useful aid.

RELUCTANCE OF OWNERS OF LAND TO UNDERTAKE UNLIMITED LIABILITY.

333. On the question of the reluctance of a substantial farmer to become a member of an unlimited liability Society where he would inevitably be a chief mark for the Society's creditors, it was pointed out by some witnesses that such a farmer, although declining to become an actual member, might become a depositor or outside guarantor, in which capacities he would be in a position to render useful assistance to the Society, without incurring any indefinite obligations. This course, we understand, has frequently been adopted by large farmers and other local residents. Although aid of this nature is undoubtedly beneficial, yet the Society loses the benefit of the presence and practical help of these persons as members, especially on the Committee, where their business knowledge and experience would in many instances prove exceedingly useful.

The principle of limited liability has become so familiar in Great Britain and in Ireland, and has been so widely adopted in all spheres of business and industry that it would be difficult, in your Committee's opinion, to induce medium or large farmers to become members

**Ireland in the New Century* (1907), p. 198.

***Report of Select Committee of House of Lords on Thrift and Credit Banks Bill*, pp. 50-1.

†*People's Banks*, p. 527.

‡*Ibid.*, p. 133.

§Article on *Agricultural Credit* (translation of), printed at Washington as a Senate Document (No. 572),

of Societies based on unlimited liability, although otherwise they might be quite willing to join for the benefit of their neighbours. There are doubtless some districts in Ireland, especially in the West, where the economic conditions are more favourable than elsewhere for the success of unlimited liability Societies. A glance at the Map of Irish Agricultural Credit Societies, published with our Report,* shows that the Raiffeisen Societies are as a rule much more numerous in the western counties than in any other districts. One obvious reason is that the need for special credit facilities is much greater in the poorer West than in the portions of the country better supplied with Joint Stock Banks. The economic condition of the small western farmers, particularly in the congested areas, has in some respects resembled in the past that of the poverty-stricken peasants of Germany among whom Raiffeisen first started his philanthropic work. Further, the members of the rural classes are in these districts more nearly of the same general level in status—and that a comparatively low one—than is the case in other parts of Ireland.

Responsibility entailed by unlimited liability not always realised by members.

334. Over the whole country, however, economic conditions are undoubtedly steadily improving, as the land passes into the hands of the tenants and as uneconomic holdings are gradually abolished through the operations of the Land Purchase Acts. We are convinced that among the new peasant proprietors it will be found increasingly difficult to establish Credit Societies based on the principle of unlimited liability. Even where such Societies have been in the past successfully formed, we doubt whether all the members have fully realised that they are individually responsible under the Rules for the total debts of the Society, to the whole extent of their property. Some of the evidence we have received confirms this doubt.

Less risk to substantial Members in a Credit Society under German law.

335. Ireland possesses large numbers of agriculturists who may be termed medium-sized farmers, for whom, according to the best authorities, limited liability Societies have on the whole proved the most suitable. These larger farmers could as on the Continent—and in some existing Societies in Ireland—be of enormous help by their example, influence, and moral support, to a Society composed mainly of small farmers. Such men are, however very naturally reluctant to submit themselves to the risk of having to bear the chief burden of responsibility under the unlimited system in case of the Society, through any cause, getting into difficulties.

The risk to such members, under the Friendly Societies Act, owing to their being in the first instance possibly the sole defendants in an action by creditors is much greater than in the case of similar Societies in Germany where proceedings by creditors against individual members are by law only permissible when, after three months from the date on which the contributory levy upon the members is declared executable, such claims have not been satisfied.

Section 122 of the German Co-operative Societies' Act reads as follows:—

“In case of bankruptcy, the society, as well as the individual members, are collectively liable with all their property to the creditors for the loss which the latter suffer at the final division of property with regard to claims that have been allowed. After the lapse of three months from the date on which the supplementary account is declared executable, the creditors, if they have not been satisfied, may proceed against individual members. Established claims which have not been expressly contested during the period of examination by the Committee of Management or by the liquidators, cannot be contested by members against whom proceedings are taken.

“Judgment of the court which is given either for or against a claim contested by the Committee of Management or the liquidators binds all members.”†

Such a provision would, we believe, be found very desirable in connection with unlimited liability Credit Societies in Ireland, and would much minimise the unnecessary risks to which the more substantial members are now exposed.

Need for more business-like methods in Credit Societies in Ireland.

336. Under a system of limited liability, the presence and aid of the more substantial farmers would, we believe, be available in assisting to manage the business affairs of the Credit Societies to a considerably larger extent than at present. Much emphasis is sometimes laid on the educative effects of the work of co-operative credit. It is, in our opinion, however,

* See Map facing page 386.

† See translation of Act in Appendices to *Report on Agricultural Credit and Co-operation in Germany*, pp. 15, 16.

easily possible to exaggerate the influence of Credit Societies in training illiterate and uneducated men into business habits. In these days when such extensive and secure deposit facilities exist, and when depositors in the Post Office Savings Banks have a State guarantee for the security of their money, it will, as we have pointed out elsewhere, be increasingly difficult to persuade the rural classes to entrust their savings to the control of their neighbours in a Credit Society, unless there is an absolute certainty of businesslike and careful management from the very start of the Society. Slipshod keeping of records and minutes, failures to make necessary lodgments, retention of cash in hand while paying interest to the Joint Stock Bank or other lender, and similar unbusinesslike methods, which have been in the past far too prevalent, tend to bring the whole co-operative credit system into undeserved disrepute.

See paras.
372-387.

In some districts the difficulty of obtaining a suitable Secretary, possessed of the necessary capacity for keeping the books and records of a Society, is almost insuperable. This furnishes an additional reason for the presence of some fairly substantial and experienced members on the Committees of the Societies, since such persons would often prove instrumental in improving and maintaining the working of the system. It cannot be doubted that the business advice of larger farmers, which is admitted to be so valuable in a trading co-operative Society, would also be extremely useful in a Credit Society in lifting the general standard of business management, and in ensuring stricter adherence to the Rules.

See paras.
523-544.

By far the most successful Credit Societies which have come under our notice have been those where one or two of the more prominent influential members took an active personal interest in their working; nor do we believe that such interest would in these cases have been any the less if the Societies had been founded upon the limited liability principle. In other instances, the efforts of one or two more substantial members have been the chief factor in averting collapse. These members have given of their time and labour, not because of their fear of the consequences to themselves of unlimited liability in case of failure, but through altruistic motives and a laudable desire to benefit their neighbours. We should be sorry to think that the mere lessening of personal financial risk would lead to a slackening of these efforts. But in the case of the majority of members, liability of some sort is undoubtedly necessary to arouse and sustain their practical interest in the working of the Society.

Absence of Council of Control in Irish Societies.

337. When dealing with the important question of the supervision of the operations of the Credit Societies in Ireland, we point out that a portion of the local organisation of German Societies, *i.e.*, the Council of Supervision, is practically non-existent in Irish Credit Societies, although provided for in the Rules. In Germany this Council is composed mainly of the most substantial residents who happen to be members. Too often the Council is liable to trust rather much to the advice of the Committee; but their personal responsibility under the law to make good any losses due to their not showing the "prudence of ordinary business men" ensures usually some sort of supervision by the Council. In the absence of this check on the work of the Committees in Irish Societies, there is all the greater need that the membership of a Society, and especially of its Committee, should include some of the medium or larger farmers of the district.

See paras. 603-8.

Exclusion of undesirable members.

338. There is admittedly the possible danger that an individual member may under the limited liability system acquire considerable influence in the control of the Society, and yet be responsible only for the—to him—trifling amount of liability attached to his holding in shares. This risk is one which cannot with prudence be neglected. But seeing that each member has only one vote, whether in an unlimited or limited Society, an individual member should seldom be in a position to monopolise the control of the Society, if each member did his duty in the way of attendance at Committee and General Meetings.

We have had proof that in spite of the existence of the unlimited liability principle in Ireland and its supposed value as a stimulus to watchfulness, cases are not at all rare in which the Committee has seldom or never met, and in which long periods have passed without a General Meeting of members being called together. A system of limited liability could not give rise to greater laxity than this on the part of members, while it would certainly encourage many useful members to join who are now deterred by the fear of being the chief mark for creditors in case of default.

Due care should be taken in the original admission and subsequent election of members to exclude, as far as possible, any individuals whose object in seeking membership there is good reason for suspecting. No general rule on this matter can be laid down, but it is well to note the fact that while a basis of limited liability would encourage many valuable members to join a Credit Society, it might also tend to open the door to members of a less desirable class, who taking advantage of the limitation of their liability might seek, from personal reasons, far removed from zeal for the welfare of the Society, to secure election as members. The serious injury done in years past to several Loan Fund Societies in Ireland, which after a time unfortunately got largely into the control of members who were professional moneylenders furnishes an example and a warning of this possible danger.

See para. 236.

THE CASE OF THE LIMITED LIABILITY SOCIETY AT BALLINDAGGIN, CO. WEXFORD.

See para. 284.

339. In our sketch of the history of the co-operative credit movement in Ireland we referred to the Ballindaggin Credit Society, Co. Wexford, founded in 1897 on the limited liability principle. This being the only Credit Society in Ireland which has worked upon this principle, we were desirous of obtaining the fullest information in regard to its origin and operations, and invited its Secretary to appear as a witness. From his evidence, and other information furnished to us, it would seem that the Society is in a locality where the people are now fairly well off, have money saved, and do not feel any necessity to borrow, though such were not the circumstances in the early days of the Society.

H. O'Byrne,
18673.

340. The Secretary informed us that the Society had never sought to obtain deposits, as the overdraft at the Joint Stock Bank provided quite sufficient for all requirements. The Reserve fund amounted in 1912 to £14. Since its inception the Society has made on an average only 6 loans per year, which seems a proof that the members, now numbering 44, do not in reality require, or at any rate do not feel the need of obtaining, advances. Only three loans, amounting to £52 in all, were made in 1911. The total capital of the Society in that year amounting to £38 18s. 1d. It is of interest to note that this Society—the only one in Ireland based upon limited liability—is, with two exceptions, the oldest Credit Society in the country.

18601, 18630 3.

The Secretary explained as follows the reasons for the adoption of the limited liability principle in the Ballindaggin Society :—

"There was no Credit Society in Co. Wexford at the time we were established. The thing was new, and we had to proceed very cautiously. We thought it was not quite fair to have men of substance placed in a position of responsibility. The people are much better off now. We did not like to put well-to-do men in a position of responsibility."

Q. "Was it on the security of the Society that the Joint Stock Bank gave the overdraft? A. We had to get men of substance to guarantee it."

Q. "Do you think the principle of limited liability made an extra difficulty in the way of getting the overdraft? A. I think that it appealed to the Joint Stock Bank."

Q. "The liability of the members being limited? A. Yes."

Q. "In what way did it appeal? A. The guarantors being prosperous men the bank was assured of repayment even if the society failed."

Capt. L. A. Bryan,
18082-5.

In referring to this Society, another witness informed us that, from the information given to him, it appeared to have done most of the work for which it was required in the neighbourhood, and the people were now comparatively prosperous. The Society had been working chiefly in the interest of the small farmers whose position had much improved. The Committee had not pushed their operations, but so far as the Society had worked it had a creditable record.

We do not think, in view of the foregoing facts, especially the particular circumstances of the district in which the Ballindaggin Society has operated, that any conclusions for or against the principle of limited liability can be usefully drawn from the history of the working of this Society.

Unsatisfactory position of the better-off members under existing unlimited liability system.

18023 4.

341. In giving evidence at our Inquiry, Captain Loftus A. Bryan, of Enniscorthy, who was nominated by the County Wexford Co-operative Council as a witness, pointed out some of the disadvantages of the present unlimited liability system in Ireland, and advocated the adoption of a scheme of limited liability. He stated :—

"I am thoroughly in accordance with the principle which underlies the Raiffeisen system—the unlimited liability of all the members, that is as applied to a homogeneous population. But as things

are worked in this country, under our law, and with the possibilities that have so far been found to exist under our law it is not unlimited liability. It means that the richest person is liable for the debts of the Society. You want to make everyone feel that they have a real liability, and that if anything goes wrong they will have to pay up. But under our system the greater part of the money is obtained by overdraft on personal guarantees. If that money had to be recovered, it is probable that the whole of the members would not have to pay, but only the most opulent individual, and he would be left to recover from the others. Practically, it means that the liability is confined to the most opulent members of the Society.

Q. "The Raiffeisen system suits a community where the people are all of the same financial level ?

A. "Yes ; but the underlying principle of the Raiffeisen system could be applied under the Act which provides for limited liability. The cheapest Act we have is the Industrial and Provident Societies Act, which means having each person's liability limited to a certain amount, but bearing a due relation to the financial stability of the individual. You can so arrange that every individual will feel himself equally responsible in proportion to his means, and consequently you can, under that system, more effectually get an active interest in the Society, and prevent things going wrong amongst the members, than under the pure Raiffeisen system."

Captain Bryan also stated that in his opinion "if a Society is well managed it will work under any system, and if badly managed it will go wrong under any system." With 18026 this view we are in full agreement. We do not believe that by merely limiting the liability of members immediate success and a wide expansion of the movement will be attained ; for under any system much will depend on the personal element, as in all business concerns ; while thorough methods of inspection and audit are as essential under one system of liability as under the other.

Desirability of leaving open the selection of limited or unlimited liability as a basis for Credit Societies in Ireland.

342. We note that Mr. H. de F. Montgomery, D.L., who has given much attention to the subject of co-operative credit, and is personally acquainted with the conditions both in Germany and in Ireland, is of opinion that the question of the principle of liability to be adopted in Irish Credit Societies should be left open. His view as to the reason for the preponderance of the unlimited principle in Germany is in accordance with that of those authorities who attribute such preponderance to the fact that until 1889 limited liability was not permissible under the law of that country.

"The fact that in two important provinces (Saxony and Pomerania) where the distribution of wealth is more analogous to that which prevails in Ireland, the form of limited liability described by Dr. Rabe and Herr von Knebel-Döberitz has proved entirely satisfactory and successful, taken together with the fact that in this country people are now more familiar with limited than with unlimited liability, tends to show that it should at least be left open to persons wishing to establish a rural co-operative bank in Ireland to adopt the Saxon or Pomeranian model. The German *Genossenschaftsgesetz* (Co-operative Society Act), wisely provides for both forms."* See paras. 318-9.

With this view that the question of the selection of limited or unlimited liability as the basis for Credit Societies in Ireland should be left open (as is done in the German and Indian Co-operative Societies Acts) your Committee fully concur. Para. 354.

CERTAIN USEFUL PROVISIONS IN THE GERMAN ACT AFFECTING LIABILITY OF MEMBERS.

343. In the opening portion of this section of our Report we briefly indicated the three descriptions of liability which exist in German Credit Societies. Section 2 of the German Co-operative Societies Act, 1889 (as amended in 1896), classifies Co-operative Societies as follows :— See paras. 303-7.

- "(1) Of such a kind that the individual members assume direct liability to the society and to its creditors to the full extent of their property for the engagements of the society (registered co-operative society with unlimited liability) ;
- (2) of such a kind that the members are liable to the extent of all their possessions, but not directly to the creditors of the co-operative society, being only obliged to pay to the latter the contributions requisite for the satisfaction of the creditors (registered co-operative society with unlimited contributory liability) ;
- (3) of such a kind that the direct liability of the members, to their society and to its creditors, for the engagements of the co-operative society is restricted beforehand to a fixed sum (registered co-operative society with limited liability.)"†

In a Society based upon unlimited liability this liability is individual and collective, any deficit in the case of a Society's bankruptcy being recoverable by a *per capita* levy upon the members. It is important to note, however, the regulation already referred to

*Notes on Agricultural Credit and Agricultural Co-operation in Germany. (Departmental Bulletin No. 7). p. 43.

†Appendices to Report on Agricultural Credit and Co-operation in Germany. p. 2.

which is found in Germany, but is absent in Ireland. Under the German Act, proceedings by creditors against individual members are only allowable when, after the lapse of three months from the date on which the contributory levy upon members is declared executable, such claims have not been satisfied.

Usually the period of three months would enable the Society to make arrangements with its creditors, but if judgment be obtained by a creditor against any member, the latter retains his right to sue the Society for a refund of the sum he has been forced to pay. If his claims are not ultimately met by the Society, he can proceed against any other solvent member or members.

344. Over 80 Sections of the 161 Sections in the German Act deal with such questions as the liability of members on the dissolution or bankruptcy of the Society, the liability of retiring members, &c.,—a sufficient proof of the importance attached to the subject by the authorities. Section 105 reads :—

“ If the creditors are not satisfied with the extent to which their claims have been met at the final division out of the assets available at the time of the opening of proceedings in bankruptcy, the members are obliged to furnish supplementary payments to the estate, such supplementary payments are to be made upon a *per capita* basis, unless the articles have fixed another proportional contribution.

“ Contributions, which individual members cannot meet, are to be distributed over the remaining members. Payments made by members beyond the amounts due from them according to the previous provisions are to be returned to them out of the supplementary payments after the creditors have been satisfied.”

The following Section (106), after stating that the receiver must at once, after the balance sheet has been deposited in Court, proceed to calculate the amount of contributions requisite from the members to cover the deficit, proceeds :—

“ In the account drawn up (Advances Account), all members are to be described by name, and the contributions to be distributed among them. The amount of contribution is to be estimated, however, in such a way that a deficiency in the total amount to be raised may not result through the inability of individual members to pay their share—such inability to be taken into account beforehand. The account must be sent to the bankruptcy court to obtain a declaration of execution. If the co-operative registry is not kept at the bankruptcy court, a certified copy of the statutes and of the list of members is to be attached.”*

Precautions in Germany in regard to Share Liability.

345. In limited liability Societies in Germany, as we have seen, a member undertakes not only liability to pay in full the nominal value of the share or shares held by him, but also a liability to pay a fixed sum on each share. This fixed sum, as well as the maximum shares that he can hold, is determined by the first general meeting of members. No increase can be made in the amount without the sanction of three-fourths of the members present at a general meeting ; nor can any reduction of share liabilities take place without compliance with certain statutory provisions as to publication and intimation to creditors, who, if not satisfied, can refuse their assent. The annual balance sheet must also give full particulars as to increase or diminution in paid up share capital and total liability incurred by members. These precautions, it is pointed out, are essential to protect third parties, since the basis of the Society's credit is the collective liability of the members.

Many of the provisions of the German Co-operative Societies Act, applicable to unlimited liability Societies in case of action by creditors, &c., apply also to Societies with limited liability. An important special provision, however, is contained in Section 140, which has the effect of considerably reducing the actual liability of members. It provides that when apart from suspension of payment the indebtedness of a Society is shown in the balance sheet to be greater than one-fourth of the collective liability of the members, the committee of management must move for the opening of proceedings in bankruptcy. This arrangement means that in ordinary cases of default only one-fourth of the liability undertaken is risked by the members. No contribution in excess of the liability attached to his share or shares can, in a limited liability Society, be claimed from a member, but contributions proportional to the shareholding of each member must be levied from all, irrespective of the importance of their holdings, unless some other principle of apportionment has been adopted in the Articles.

I.A.O.S. Rule defining Unlimited Liability.

346. In the Rules issued by the I.A.O.S., for Credit Societies,† Rule V., which is the only one dealing with the liabilities of membership, enacts that :—

“ Every member of the Society shall be, equally with every other member, jointly and severally liable for all debts incurred by the Society, and for any loan which a member, or his sureties, fail to pay ; but

*See Appendices to Report on Agricultural Credit and Co-operation in Germany, p. 14.

†Appendix 22 to Minutes of Evidence.

each member of the Society shall be liable only for the debts incurred and loans advanced during his membership. In the case of a guarantor member, the calling up of any contribution on the score of common liability shall be deemed to be on account of his guarantee, and shall not exceed the amount guaranteed.

"In the event of the death of a member, the liability of his heirs, executors, and administrators shall extend only to such loans as may have been contracted by him, and which remain unpaid at his death, together with the interest thereon."

The *Friendly Societies Act*, 1896 (59 and 60 Vic., c. 25), deals with the cancelling or dissolution of Societies registered under the Act. There is no necessity to refer to in detail these provisions, beyond pointing out that they were not drawn up with the special circumstances of Credit Societies in view. Credit Societies are, with some other organisations, merely specially authorised Societies under the Act.

VARIOUS DEFECTS IN I.A.O.S. RULES; LEGAL OPINION.

347. Your Committee are strongly of opinion that steps should be taken to define clearly the course which ought to be followed in the taking of proceedings against members of an unlimited liability Credit Society, as also in the case of any limited liability Societies which may be formed. We have had under our notice several cases in which difficulties arose when the Department of Agriculture found it necessary to take legal action to recover moneys due to them by Credit Societies. We therefore thought it advisable to submit for legal opinion certain points dealing with the constitution and methods of these Societies in Ireland. The opinion of Counsel was that the existing Rules, as issued by the I.A.O.S., are misleading, since they treat the Society as a corporate body with a common seal. "The Society is not corporate, and the liability of the members must be considered on the same lines as a Club." Paras. 557 9.

Procedure in taking action against Credit Societies for Debts due.

348. We were also legally advised that in any action taken against an unlimited liability Society, the Trustee, as representing the Society, and the members as such, should be sued, but that the Trustee would not be liable beyond the amount of funds in his hands. It seems highly desirable that a regular course of procedure should be followed in this matter, so as to prevent the creditors of a Society selecting in the first instance at their discretion any well-off members with a view to proceeding against them alone for the total debt due by the Society. The risk of such action is quite sufficient to deter the medium or larger farmers from joining a Credit Society based upon unlimited liability, once they realise their probable position in the event of the Society's failure. This serious drawback would be much minimised if the invariable procedure were that action should be taken in the first instance only against the Trustee acting for the Credit Society, who would then make a *per capita* levy on all the members for the payment of the amount due. This would avoid the immediate penalising of the better-off members.

Under the German Act, as we have shown, a creditor cannot take proceedings against any individual member save when after the lapse of three months from the date on which the contributory claim upon the members has been declared executable, his debt still remains unsatisfied by the Society. The principle of this useful provision should, we consider, be adopted in any Act dealing with Credit Societies in Ireland, as also should several other provisions of the same exhaustive enactment. The contrast between the completeness of the German measure for the proper control and supervision of co-operative Credit Societies, and the necessarily patchwork attempts made in this country to utilize portions of the unsuitable Friendly Societies Acts for the purpose is a very striking one. See paras. 306, 343.

CONTINUANCE OF UNLIMITED LIABILITY OF A MEMBER AFTER HIS WITHDRAWAL FROM MEMBERSHIP.

349. A further vital point upon which the existing I.A.O.S. Rules seem entirely misleading is that which concerns the extent of a member's liability after his resignation. Rule IV (e) reads as follows:—

"A member leaving the district shall cease to be a member, provided that he has satisfied all claims in respect of money or suretyship which the Society may have against him; but such withdrawal shall not take effect in respect of the member's liability to make contributions under Rule V., until six months thereafter."*

*See Appendix 22 to Minutes of Evidence.

The obvious meaning conveyed by this Rule is that after the expiration of six months from the date of his withdrawal from the Society, a member's liability for the debts of the Society totally ceases. This is, we understand, the interpretation which has been placed upon the Rule from the time of its issue. Your Committee felt doubtful, however, as to the effect of this intended arrangement in practice, for it is clear that if the chief members of a Society were, for one cause or another, to withdraw—possibly without the knowledge of the Society's creditors—the mere concealment of such withdrawal for the short space of six months would, assuming the above Rule to be legal, leave the creditors with little or no security for their claims, and with no means of enforcing them against the very members whose standing had probably been the chief factor in influencing the creditor to advance funds to the Society.

On submitting this important matter for legal opinion, we were informed by Counsel that “as between himself and the Society, a member can free himself from all liability by resignation and the lapse of six months, provided he has paid everything due by him to the Society, but he will still be liable to any creditor of the Society where the debt has been incurred during the period of his membership.”

350. It seems, therefore, that a member of an unlimited liability Credit Society cannot—notwithstanding the Rules of the I.A.O.S.—divest himself, by mere resignation and the lapse of six months, from his obligation to pay in full, if called upon, a debt contracted by the Society during his membership and remaining unpaid to a creditor; this obligation presumably remains until it is barred by the Statute of Limitations.

No such question can arise in the case of a limited liability Society, since each member's liability is limited to the amount unpaid upon the shares held by him; by the transference of his shares to another person approved by the Committee, his obligations to the Society entirely cease. In our opinion, this very wide difference between the two types of liability, both in the extent and the duration of the obligation, furnishes a further strong argument in favour of limited liability as being much the more suitable to the present conditions in the greater part of Ireland.

Safeguards for Creditors of Societies in German Co-operative Societies Act.

351. It should be noted in this connection that under the German Co-operative Societies Act “if a Society dissolves within six months after the retirement or exclusion of a member, such cessation of membership is null and void, and such person must contribute to cover any deficit arising from obligations incurred up to the date of cessation of membership, as well as for those incurred within six months therefrom. When, moreover, the claims of bankruptcy creditors have not been met by a society with unlimited liability within six months after the supplementary contributions have been declared executable by the Court, the property of past members who have left the Society within two years from the opening of proceedings in bankruptcy may be attached, but only in respect of obligations incurred within the two years preceding the date of their leaving the Society.”*

This cessation of liability after two years from withdrawal from membership is in Germany free from the risk to creditors which it would entail in this country under the existing Rules, for the withdrawal of members is very carefully safeguarded in Germany by 13 separate Sections of the Act.† For instance, a member must give at least 3 months' notice in writing of his intention to retire, and the Articles of Association may fix any longer period of notice up to 2 years. The Committee of Management is also bound to transmit to the Court for entry in the co-operative register at least six weeks before the end of the business year, the notice of withdrawal of a member, and a written assurance that the notice of withdrawal was given in proper time. The motive of the retirement of the member and the year of such retirement are to be at once entered in the Court list of members. As a consequence of this registration the member retires at the end of the year marked on the list.

352. Various other well-considered safeguards for the interests of creditors are provided in Germany, which are absent from the Rules governing Credit Societies in Ireland. There can, we think, be no room for doubt but that the phenomenal success of the movement in Germany is largely due to the strict supervision thus exercised in various ways over the operations of the individual Societies, and to the ample protection afforded to a Society's

*Report on Agricultural Credit and Co-operation in Germany, p. 83.

†See Appendices to Report on Agricultural Credit and Co-operation in Germany, pp. 9 and 10.

creditors in such directions as those indicated above. Further instructive examples of the methods adopted will be adduced when we come to deal with the Inspection and Audit of Credit Societies. See paras. 599-604, 611-2.

We consider that the exact nature and extent of the liability of a member of an unlimited liability Society in Ireland under the Friendly Societies Acts should be made quite clear in the Rules, so as to avoid all possibility of misapprehension on such a vital matter. But the preferable course would be, in our opinion, to adopt legislation somewhat on the German model, limiting the period of continuance of unlimited liability after a member's withdrawal to say two years; but introducing adequate safeguards for creditors by means of compulsory notice of a member's withdrawal and similar methods.

Irish Joint Stock Banks and Limited Liability Societies.

353. One objection which has been made to limited liability for Irish Societies is that the security to a Society's creditors (such as the Joint Stock Banks) is smaller than in the case of unlimited liability Societies. To a certain extent this is no doubt true, but we think it is possible to attach too much weight to the argument. For example, the Irish Joint Stock Banks do not, from the evidence given before us, appear to depend on the system of unlimited liability for the security of their overdrafts to Credit Societies; they advance their overdrafts, as a rule, on the written personal joint and several guarantee of six or eight of the most substantial members of the Society, usually the members of the Committee. See paras. 317-9.

We do not believe that the adoption of the limited liability principle would in any material respect alter the attitude of the Joint Stock Banks in regard to the granting of overdrafts to Credit Societies. A Society with, say, 200 members, each member liable for the nominal amount of his shares, would (with shares of the value of £5) be in a position to furnish practically as satisfactory final security as a similar Society on the unlimited liability basis, especially if the more substantial members took up, as in Germany and elsewhere, a number of shares proportionate to their means. As pointed out by Mr. Cahill in reference to the rural Credit Societies in Saxony and Pomerania, "the security represented by a Society with limited liability in which members are required to take up shares and liability in proportion to their means, represents an effective value closely approximating to that of a Society with unlimited liability."* See para. 438.

The total obligations incurred by a limited liability Society to creditors should, of course, be very carefully supervised, so as to ensure a due relation between them and the total liability of the members.

Organisers should explain the main advantages of both limited and unlimited liability.

354. After a most careful consideration of the various aspects of the question of the most suitable form of liability for Credit Societies in Ireland, your Committee recommend that in the future organisation of such Societies the selection of the type of liability to be adopted should be left to the prospective members to decide, after the distinctive advantages of each system have been clearly explained by the Organiser. Copies of Model Rules for each type of Society, with an explanatory memorandum, should also be available for purposes of information. Although we have spoken throughout of the different "principles" of liability, the matter of selection is in reality more one of expediency than of principle. A capable organiser will not find it difficult to convey to his audience the leading points of difference, so as to enable them to arrive at a fair comprehension of the main questions involved.

The unlimited liability principle in Credit Societies has had in Ireland a practical monopoly since the initiation of the movement, only one Credit Society based on limited liability having been in operation. This situation somewhat resembles that in Germany where until the law of 1889 only unlimited societies existed, others being illegal—a circumstance which, as we have seen, naturally gave a very considerable start in that country to unlimited liability societies. The above facts constitute somewhat of a handicap upon the creation of limited liability Credit Societies in Ireland; there will therefore be all the more need for a full and clear explanation being given of the main features of this type of credit organisation. On the other hand, in districts where Co-operative Societies, such as Dairy Societies, on the limited liability system already exist, the principles of limited liability will probably be familiar to the farmers. See para. 308.

*Report on Agricultural Credit and Co-operation in Germany, p. 85.

TITLE OF "THRIFT AND CREDIT SOCIETY" RECOMMENDED.

355. In our opinion, the title of the Societies under either system should be "Thrift and Credit Societies." The word "thrift" will emphasise the importance of the savings bank side of the movement, while avoiding the use of the term "savings" which might lead to confusion with other Savings Banks in the country. Again, "Credit" seems a more suitable term than, say, "Loan," which would resemble too closely the title of other Loan Societies. We notice that the description "Thrift and Credit Societies" has already been made use of in a Bill introduced into Parliament.*

The word "Bank" should be avoided; it gives a false impression of the true functions of these Societies, and leads at times to unfounded jealousy on the part of regular banking institutions. In fact, the Chief Registrar of Friendly Societies informed the Select Committee of the House of Lords on the Thrift and Credit Banks Bill that these Credit Societies were not allowed to call themselves "Banks."† This decision has been enforced in Ireland, we are informed, these Societies having originally been styled "agricultural banks," but having had to relinquish that title.

OUTLINE OF CONSTITUTION OF A LIMITED LIABILITY CREDIT SOCIETY WITH SHARES.

356. Your Committee think it well to outline briefly how an average Thrift and Credit Society on a limited liability basis might be founded. If, say, the sum of £1,200 would supply the normal credit requirements for reproductive purposes of the medium and small cultivators and other borrowers residing in the area covered by the operations of the Society, the resources of the Society might be constituted as follows: Assuming the membership of the Society to be eighty, and that the nominal share capital is £500 (one hundred £5 shares being issued) each member would have at least one share, the balance of twenty shares being taken up by the better-off members. It is suggested that only 5s. per share be paid up, the outstanding capital remaining as a security for the solvency of the Society.

It should be noted that this reserve liability can be called upon only in the extreme case of the Society's assets failing to meet its liabilities, and only to the extent found necessary to cover any such deficit in the assets.

The paid-up capital would amount to £25. Taking the normal deposits of the Society at £900, a Bank overdraft of £275 would complete the required lending capital of £1,200. If $3\frac{1}{2}$ per cent. be paid on deposits, 4 per cent. on the overdraft, and if $6\frac{1}{4}$ per cent be charged to borrowers—the capital being turned over once in the year—the Society would pay out £41 in interest, and earn £75, thus making a profit for the year of £34.

With a Society of half the size, the credit requirements of the district being proportionately smaller, a fair profit would still be made. In this case, the membership would be, say, forty, the nominal share capital £250 (*i.e.*, 50 shares of £5 each), the paid-up capital £12 10s., the deposits £450, Bank overdraft £137 10s., and annual profit £17. Should a lending capital of only £400 suffice for the needs of the district and the Society have only twenty or thirty members, a profit of about £10 per annum could still be realised at the same rates. No Society, however, should be started with less than forty members; and even with this number, it would be very difficult to do more than make ends meet.

In the allotment of shares, applications from smaller men of good character should have the preference. The number of members in the early days of a Society might not reach fifty, but when the advantages of membership had become better appreciated, and confidence in the Society had been established, the number of applicants would probably increase very considerably.

The transfer of shares should be permitted only under very exceptional circumstances, with the consent of the Committee.‡

Shares should be taken by members in proportion to their means, as far as possible.

357. The more substantial members should, as far as possible, take a larger number of shares than the smaller men, thus increasing the stability of the Society and its security for creditors. We cannot recommend, however, that there should be any hard-and-fast

*See Appendix 23 to Minutes of Evidence.

†Report of Select Committee of House of Lords on Thrift and Credit Banks Bill (96-1910), A. 503.

‡See proposed Rules 19, 23, p. 393.

rule as in Germany, compelling members to take up shares in proportion to their means. Apart from other fairly obvious reasons against this course would be the difficulty in determining precisely the comparative means of each member, in the absence of the facilities for doing so which exist in Germany. But the extreme desirability of a larger number of shares being taken up by any fairly well-to-do members should not be lost sight of. No member, however large his share holding, should possess more than one vote. Should the General Meeting so decide, a dividend not exceeding 5 per cent. per annum might be paid upon the paid-up share capital of the Society. See para. 316.

Members to be permitted to borrow only to amount of their nominal Share Capital.

357A. A useful method of partially achieving the object in view would be the adoption of a Rule limiting the amount which any member can borrow from the Society to a sum of £5 for each share held by him. Thus a medium farmer who might find it desirable to borrow say £50 from the Society could not do so unless he held ten £5 shares, on which £2 10s. had been paid up. On the other hand, an agricultural labourer requiring only £5 of an advance could obtain this while holding only one share in the Society. This method, while free from the legal compulsion of the German system, would, we believe, afford an extremely beneficial means of inducing members to undertake a share responsibility in some proportion to their means, by making the benefits receivable from the Society bear some relation to the liability undertaken by each member.*

On the whole, it seems desirable that legislation should be introduced for the purpose of meeting the special needs of Credit Societies, instead of forcing them to adapt their organisation and procedure to the limitations of such Acts of Parliament as the *Industrial and Provident Societies Act* and the *Friendly Societies Act*, which were not passed with the particular objects or constitution of these Societies in view. Your Committee would suggest that if, as appears probable, legislation be found necessary in connection with the Loan Fund system of Ireland, a favourable opportunity would occur of dealing at the same time in a comprehensive manner with the whole question of rural credit in this country. See para. 275.

CONCLUSIONS.

358. Our conclusions in regard to the subject of the system of liability most suited for Credit Societies in Ireland may be summarized thus :—

- (a) The adoption of unlimited or limited liability is not so much a matter of principle as of expediency, and of adaptation to varying economic and social conditions. Both systems have been eminently successful, when properly managed and supervised. Para. 328.
- (b) The unlimited principle is generally suitable only when most of the members are fairly equal in status, and are of the smallest class of agriculturist, although the presence and help of better-off members is most valuable. Experience does not sustain the contention that unlimited liability is always effective in ensuring careful local management. In Ireland extreme laxity in the local management of many Societies has existed in spite of unlimited liability. Para. 329.
- (c) In Germany, the home of the co-operative credit movement, legal limitations prevented till the year 1889 the adoption of the limited liability principle. This naturally tended to give a considerable start to the system of unlimited liability in that country and in those countries (including Ireland) which followed its example. Paras. 308, 314, 354.
- (d) In recent years there has been a steady extension of limited liability Credit Societies in many countries, more especially where the rural classes in the same district are of varying status—although the great majority of rural, as distinct from urban, Credit Societies, are still based on the unlimited principle. Para. 311.
- (e) Unlimited liability having been so long abandoned in Great Britain and Ireland in the spheres of business and commerce, there is an undoubted difficulty in successfully advocating its claims as a basis for any organisation, for rural credit or otherwise. Organisers of Credit Societies in Ireland should explain the main advantages of both the limited and the unlimited systems. Paras. 323 7, 354.

*See proposed Rule 29, p. 394.

Pars. 331 6, 341.

- (f) The evidence has proved that in Ireland, as in Great Britain, the more substantial farmers, who might with much advantage to the Credit Societies have become members, have been deterred from joining by the fact that under the present system of unlimited liability they would incur the serious and almost inevitable risk of being the chief marks in case of action by creditors of the Societies. We do not agree with those who, differing in this from Raiffeisen, favour the exclusion of medium and large farmers from Credit Societies; on the contrary, we think the Irish movement has suffered much from the absence of this class.

Para. 353

- (g) The Joint Stock Banks make advances on overdraft on the joint and several guarantee of some of the more substantial members in a Society, and would probably continue to require this security, whatever type of liability be adopted.

Pp. 391-406

- (h) Draft Rules for limited liability Societies, with share capital, under the existing Industrial and Provident Societies Acts, each share being £5 in value with 5s. paid-up, and also draft Rules for unlimited liability Societies, under the Friendly Societies Acts, are submitted with our Report.

Para. 357-7A.

- (i) In a limited liability Society the members should incur liability in proportion, as far as possible, to their means. Compulsion in this matter, on the lines enforced in Germany, would not be workable in this country. But the amount borrowed from the Society by any member should not be allowed to exceed £5 for each share held by him; this plan would offer a strong inducement to many members to increase their share-holding.

Para. 338.

- (j) No matter what the number of shares held in a Society, each member should possess only one vote, so as to avoid giving undue voting influence to the better-off members. Care should be taken to exclude undesirable members who, taking advantage of the limitation of liability, might seek to enter a Society.

Para. 353.

- (k) The total obligations incurred by a limited liability Society to outside creditors should be strictly confined in amount, so as to bear a due relation to the total nominal liability of the members, allowance being made for possible failures to realise the security in the case of individual members.

Paras. 347-352

- (l) The existing I.A.O.S. Rules for unlimited liability Societies should be revised in several respects, in accordance with legal opinion. They should make clear, amongst other things, the fact that a member's liability to outside creditors for the debts contracted by a Society during his membership is not affected by his withdrawal from membership.

Para. 357.

- (m) In view of the many inevitable drawbacks attached to efforts to adapt the unsuitable existing Acts of Parliament to the requirements of Credit Societies, special legislation dealing comprehensively with the whole subject is, in our opinion, desirable.

(c) DEPOSITS IN CO-OPERATIVE CREDIT SOCIETIES.

We now proceed to the consideration of the important branch of co-operative credit which is concerned with the deposits in Credit Societies, both as a source of capital and as an incentive to thrift.

DEVELOPMENT OF THRIFT SIDE OF RURAL CREDIT MOVEMENT ON THE CONTINENT.

359. One of the most prominent features of Co-operative Credit institutions on the Continent is the very large extent to which the thrift side of the movement has been developed by the encouragement of local deposits. Credit Societies in Germany, for instance, almost invariably bear the name of Savings and Loan Banks, a title which calls attention to their double function as bodies established both for the stimulation of thrift and for the granting of credit to their members. At the very beginning of his career, Schulze-Delitzsch recognised the extreme importance of attracting deposits, and strongly urged that such money as the Societies found necessary to obtain on loan should be received in the form of savings deposits. Each Society was to endeavour to become the "Savings Bank" of its district. The Raiffeisen Societies have also strongly emphasised the thrift side of their functions. Confidence in the security of both the Schulze and Raiffeisen systems has been so well established that the Law Courts allow trust moneys to be paid to these Societies on deposit. In the crises caused by the wars of 1866 and 1870, when other Banks suffered from runs upon them, deposits were pressed upon the Credit Societies for safe keeping, even when no interest was offered.*

In the year 1910, the savings deposits in 14,729 German rural Credit Societies amounted to £92,429,100, and the deposits on current account to £10,865,000. The savings deposits averaged £6,275 per Society, and £64 per member; but the deposits of non-members are included in the total.†

In Austria there is also a large inflow of deposits to the Raiffeisen Societies, this being, in Mr. Wolff's opinion, due largely to Government patronage, and also to an insufficient supply of Savings Banks in the rural districts.‡

Savings in Italian Credit Societies.

360. Amongst the most strikingly successful Thrift Societies are the Popular Banks in Italy, based on the limited liability principle and founded by Signor Luzzatti, who, following the principles of Schulze, made it a chief aim of these Societies to collect deposits, principally savings deposits. His desire was by these means to bring about the independence of the Societies, and for this cause he preferred small deposits to large, as the withdrawal of the latter might often be a matter of considerable inconvenience. The Italian Credit Societies are in many cases in a position to allow a higher rate of interest on deposits than even the public Savings Banks. The deposits are of various forms.

"The humbler classes, not used to business methods, entrust their savings to the banks as savings deposits; the commercial and industrial classes prefer to lodge money on current account and to withdraw it by means of cheques; the workmen's unions and mutual aid societies deposit funds not immediately required for fixed periods and draw good rates of interest. This variety in the deposits contributes to give elasticity to the operations of the popular Banks. The interest paid on deposits varies from three to four per cent."§

The Italian Societies modelled on the Raiffeisen system, and introduced into Italy by Signor Wollemborg, also emphasise the importance of encouraging savings. Usually these rural Credit Societies have no initial capital, but receive savings deposits from members and non-members, the interest on which varies from $3\frac{1}{2}$ to 4 per cent. "It is the deposits which furnish the means for making the loans, and only in so far as the deposits are insufficient do the rural Banks have recourse to other sources of capital."|| On the 30th June, 1912, the deposits held by the Italian rural Societies amounted to about £3,970,000.

* *People's Banks* (Wolff), p. 139.

† *Report on Agricultural Credit and Co-operation in Germany*, pp. XIV., 79.

‡ *People's Banks*, p. 235.

§ *An Outline of the European Co-operative Credit Systems* (Rome, 1913), p. 53.

|| *Ibid.*, p. 50.

Efforts made in German Societies to attract deposits.

361. It is unnecessary for us to multiply instances from other countries of the eminent success almost universally attained on the Continent by Credit Societies in their capacity of receptacles for the small savings of the people. In many cases the amount of deposits received from non-members largely exceeds the deposits of the members themselves—a convincing proof that these institutions have secured the confidence of the public. “Whenever Co-operative Banks have shown themselves successful as Credit institutions, they have done so because they first attained distinction as thrift institutions, carrying out to the best of their ability Schulze’s standing rule of ‘gathering up every fragment of spare cash in their district.’”

It is obvious that no Society, no matter how secure it may be, can hope to attract deposits without making special efforts to bring its advantages as a Savings Bank under the notice of potential depositors. The following extract illustrates the endeavour made in Germany to stimulate thrift through the instrumentality of these Societies.

“Not only are members urged to bring in their savings, but the savings of non-members are also welcomed; and efforts are made to reach all ages and classes in the district. Farm hands and servants are recommended by masters to deposit part of their wages with the Society; teachers in schools distribute savings books; savings boxes are given out free of charge; and in many cases societies employ collectors who make weekly visits to houses for the sale of savings cards of different denominations (from 6d. up to 5s.). . . This plan of obtaining deposits has been specially developed among the societies attached to the Hessian Union; in 1908 a total of £114,000 was thus obtained by some 180 societies, this sum representing 10 per cent. of the total deposits held at the end of the year by the 402 societies in this Union.”*

The Pomeranian Union of Agricultural Societies in the years 1908 to 1911 sold no less than 450,000 savings boxes to the various Societies, which usually distribute them gratuitously amongst children, the keys of the boxes being entrusted to the charge of the Secretary to the Society, who enters the various amounts in a savings book. The savings deposits in 376 limited liability Credit Societies in Pomerania in 1911 amounted to £1,574,500, or an average of £4,187 per Society. We believe that a savings box system might with much advantage be adopted in connection with Credit Societies in Ireland

DIFFERENCES BETWEEN IRISH AND GERMAN CONDITIONS IN REGARD TO SAVINGS BANKS.

362. We have throughout our Report had occasion more than once to refer to the fact that differing conditions in various countries frequently render it difficult to draw useful conclusions from the success of an institution in a particular country as a guide to its applicability elsewhere. In the Section on Post Office and Trustee Savings Banks we have dealt fully with the important place taken by these organisations, and especially by the Post Office Savings Banks, as thrift institutions in Irish rural communities; and we have emphasised the fact that the Government security afforded to Post Office Savings Bank depositors renders it very difficult to divert such savings from these institutions to others which are not in a position to furnish the same guarantee to the depositor—absolute security being preferred, as a rule, to a higher rate of interest without such security.

In Germany (unlike Ireland) there are no Post Office Savings Banks, the great majority of the Savings Banks being Communal, District, or Urban institutions. That the circumstances in Germany in this respect differ considerably from the conditions in Ireland may be seen from the following extract from Mr. Cahill’s Report:—

“Among the advantages offered to the rural population by these societies in their functions as savings banks are proximity, almost absolute security, and adequate interest. Although there are about 3,000 public savings banks, besides numbers of other deposit banks, they are mainly situated in places with over 3,000 inhabitants, and thus cannot adequately serve the rural population, while the 17,000 rural credit societies reach the small villages. It is true that there are about 6,000 receiving agencies in connection with the public savings banks, but the importance of these agencies is not considerable, the representatives of the banks being persons with other principal occupations (teachers, parish officials, tradespeople, &c.) and in many districts it is a debated subject as to whether the deposits obtained by them are remunerative. Accordingly, by utilising the services of the rural credit society, the country depositor saves not only a good deal of time, but also the cost of the journey to the nearest town and other necessary or incidental expenses which may reduce to very little the balance obtained in interest.”

The Report goes on to point out that—

“Before village banks were widely established, the idea of depositing at interest was unfamiliar to the majority of country dwellers; and the societies have thus not only spread the idea of money being itself an instrument for the acquisition of further wealth, but have provided suitable means for its realization. Money was previously either hoarded in the farmhouse, or was only deposited, perhaps at considerable intervals, in the nearest savings bank, so that even when money was so deposited, not a little interest was usually sacrificed by retaining money till a suitable occasion arrived for its deposit.

* *Report on Agricultural Credit and Co-operation in Germany*, p. 77.

"Deposits may be lodged with the vast majority of country credit societies at almost any time ; in the ease of most of the numerous societies visited by the writer, the secretaries were willing to accept deposits whenever they were at home (the offices of these societies are mostly in the houses of the secretaries). The times most favoured by depositors appeared to be the mid-day interval, the evenings, and Sundays from twelve to two. Some societies fix certain hours on one or two days in the week."

Safeguards for depositors in German Credit Societies.

363. In regard to the question of the safety of deposits in the German Credit Societies the Report states :—

"The security of depositors' money is safeguarded (a) by the fact that the society confines its operations to a small area and to simple well-secured transactions ; (b) by the fact that its management is controlled by the Board of Supervision ; (c) through a general knowledge of the affairs of the society being common to the bulk of the members ; (d) through regular outside audits ; and (e) finally, if all these safeguards should fail, through the individual and collective liability incurred by the members. . .

"The further legal provision that the total amount of the savings deposits that may be accepted and of the loans that may be contracted by a society, as well as the limits of the totals of the advances that may be granted to individual members, must both be fixed each year by the general meeting of the members, prevents the extension of business beyond the collective solvency of the members composing the society. It has been the boast of German rural societies of the Raiffeisen type that no money has ever been lost by them ; this statement has not meant that the societies, as such, have not lost money on rare occasions by fraud on the part of officials and by loss of interest, or of capital advanced, but that depositors or creditors have never lost their money. When sureties, or other security taken for loans, were insufficient to meet the debt of a defaulter, the ordinary assets, such as reserves and share-capital, were drawn upon, and, finally the liability of members, when realised, always proved adequate. This boast has remained justified to the present time ; as regards *depositors*, one eminent Union director with a long and special experience of credit societies remarked to the writer that no case had come to his knowledge in which depositors in rural credit societies had suffered loss."*

See paras 430-1.

Sense of security created by connection of German Credit Societies with the State Bank.

364. In dealing with the relation of the Prussian State Central Bank to the local Credit Societies, the Report points out that the known connection of the Societies with this State institution "procures for them of itself a certain measure of confidence among the country population, and helps to attract deposits which constitute the largest part of their working capital."†

In his evidence at our Inquiry, Mr. Cahill also referred to the feeling of security created in depositors by this connection with the State Bank. "I consider that in Germany the Societies are benefited by the fact that there is a State Bank to which these Societies are attached through their own Central Banks. They say in a vague way 'our deposits are more or less guaranteed.'"

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Competition of Savings and other Banks with Credit Societies in Germany.

365. It is clear that the German Credit Societies are in many districts feeling keenly the competition of other institutions. "In the smaller country towns where small bankers usually already exist, larger town banks are now establishing agencies or branches, and are seeking deposits with great energy. The public communal or districts savings banks also compete for the savings of the country people, and the number of these organisations is also increasing."‡ "The competition of the public savings banks, which, as a rule, possess the guarantee of the district or town in which they are established and are authorised to take trust and other moneys on deposit, is keenly felt by the societies. Latterly also these public banks have adopted a more active policy. A large number advertise regularly for deposits in the newspapers, not only of their own, but of more remote localities, and many have extended their business in new directions, such as by the opening of current accounts, the issue of cheque books, and discounting of bills, &c."§

An interesting specific illustration of this competition between Credit Societies and Savings Banks is that of the Wallhausen Savings and Loan Bank in Prussian Saxony. "The Society has to compete for deposits with a communal and a district savings bank, both of which are situated within easy distance of Wallhausen. It is at a disadvantage in two respects ; in the first place, the other savings banks are guaranteed by the commune or by the district, and may receive trust and public moneys on deposit ; and, in the second place, many country people do not care to leave money with a co-operative society, because there is often still an unfounded fear that the extent of their savings may become almost common knowledge."||

COMPARATIVE FAILURE OF IRISH CREDIT SOCIETIES TO ATTRACT DEPOSITS.

366. In their Annual Reports the I.A.O.S., from time to time have emphasised the importance of attracting deposits to the local Credit Societies ; but in spite of the excep-

* *Report on Agricultural Credit and Co-operation in Germany*, p. 78.

† *Ibid.*, p. 290.

‡ *Ibid.*, p. 123.

§ *Ibid.*, p. 80

|| *Ibid.*, pp. 131-2.

tional success of some Societies in securing public confidence, notably Mullaghbawn (Co. Armagh), Columbkille (Co. Longford), Townacraan (Co. Mayo), Malin (Co. Donegal), Ballyragget (Co. Kilkenny), and Moyne (Co. Wicklow), we cannot but think that the result of twenty years' working of the co-operative credit movement in Ireland is, in this respect, extremely disappointing. Of the 163 Societies whose Returns appeared in the last published Report of the I.A.O.S., 65 Societies, or 40 per cent., had either made no effort to secure deposits, or had entirely failed in any effort made. Of the 98 Societies returned as having deposits, 37 held deposits of less than £100 in amount.

Over half the total deposits of Credit Societies in Ireland held by fourteen Societies.

367. The failure of the movement in this important respect is further seen from the fact that out of the total of £27,290 held in deposits by 98 Credit Societies, £14,154, or over one-half, was in the possession of only fourteen Societies.

The following are the names of these Societies, and the deposits held by them on 31st December, 1911.

Name.			County.			Amount of Deposits.
						£
Mullaghbawn	Armagh	2,177
Columbkille	Longford	1,499
Townacraan	Mayo	1,254
Malin	Donegal	1,242
Ballyragget	Kilkenny	1,150
Moyne	Wicklow	1,072
Inniskeen	Monaghan	940
Greencastle	Tyrone	860
Lohar	Kerry	743
Geesala	Mayo	717
Cloone	Leitrim	682
Middletown	Armagh	671
Donaghmoyne	and	Lis-	Monaghan	582
doonan				
Togher	Wicklow	565
						£14,154

Classification of amounts of local deposits in Credit Societies.

368. The following Table shows at a glance the number of Credit Societies in Ireland which in 1911 possessed local deposits of the amounts indicated, with the proportion which each class bore to the total number of Societies furnishing Returns.

Number of Societies, furnishing Returns for 1911, possessing :—					Percentage of Total Number of Societies.
No deposits	65	39·88
Total deposits under £50	26	15·95
Between £50 and 100	11	6·75
„ 100 and 200	20	12·27
„ 200 and 300	9	5·52
„ 300 and 400	11	6·75
„ 400 and 500	7	4·29
„ 500 and 600	2	1·23
„ 600 and 700	2	1·23
„ 700 and 800	2	1·23
„ 800 and 900	1	·61
„ 900 and 1,000	1	·61
„ 1,000 and 1,500	5	3·07
„ 1,500 and 2,000	—	—
„ above 2,000	1	·61
					163
					100·00

In addition, 43 Societies were recorded by the I.A.O.S. as not working or not started, while in 30 other instances no returns were furnished by the Societies. In these latter cases it is impossible to say whether the Societies did any business during the year, or were in possession of any deposits.

ANALYSIS BY PROVINCES AND COUNTIES OF DEPOSITS IN CREDIT SOCIETIES

369. The following is an analysis of the deposits of the 163 Credit Societies which furnished Returns, as spread over the various Provinces and Counties of Ireland :—

Province. and County.	Amount of Deposits in December, 1911.	Number of Societies possessing Deposits.	Number of Societies furnishing Returns to I.A.O.S.
£			
ULSTER.			
Antrim	—	—	—
Armagh	4,047	6	6
Cavan	1,493	9	9
Donegal	4,392	15	19
Down	—	—	—
Fermanagh	—	—	2
Londonderry	—	—	1
Monaghan	1,601	4	5
Tyrone	986	2	3
	12,519	36	45
MUNSTER.			
Clare	47	1	5
Cork	20	1	3
Kerry	1,141	7	9
Limerick	359	1	2
Tipperary	—	—	3
Waterford	—	—	—
	1,567	10	22
LEINSTER.			
Carlow	—	—	—
Dublin	—	—	—
Kildare	—	—	—
Kilkenny	1,545	2	3
King's	—	—	2
Longford	1,499	1	1
Louth	245	3	6
Meath	148	2	2
Queen's	210	1	3
Westmeath	—	—	—
Wexford	353	8	19
Wicklow	2,267	4	4
	6,267	21	40
CONNAUGHT.			
Galway	448	5	9
Leitrim	1,643	6	9
Mayo	4,201	16	34
Roscommon	30	1	1
Sligo	615	3	3
	6,937	31	56
Total for Ireland ...	£27,290	98	163

370. From these figures it will be seen that there were no Credit Societies in the Counties of Antrim, Down, Waterford, Carlow, Dublin, Kildare or Westmeath; and

that there were no deposits in the Societies in the Counties of Fermanagh, Londonderry, Tipperary, and King's Co. In the counties of Clare, Cork, Louth, Meath, Queen's Co., and Roscommon the deposits did not amount to £250 in any County, while in Cork and Roscommon, they were as low as £20 and £30 respectively. Counties Donegal and Mayo, two districts where the operations of Credit Societies are admittedly most required, hold pride of place in respect of deposits, these two counties accounting for no less than £8,600 of the total deposits of Ireland. If to these be added Co. Armagh with deposits of £4,047, it will be seen that almost one-half of the total deposits for the 32 counties of Ireland are held by these three counties. Again, in examining the figures for these three counties it will be found that almost one-half of the deposits are held by five Societies only, out of a total of 59 Societies. In fact, these five Societies (*i.e.* Mullaghbawn, Townacrann, Malin, Geesala and Middletown) hold almost one-quarter of the total deposits of the Credit Societies in Ireland.

Taking the country as a whole, the deposits in the Credit Societies amount to about £850 per county, an infinitesimal proportion of the savings of the rural population. Such an amount ought, we believe to be available in almost every parish in the country for the purposes of a Credit Society, if only the confidence of the small depositors could be secured. That there are ample funds available in rural districts is clearly evidenced from the remarkable Post Office Savings Bank figures which we quote elsewhere. A fractional part of these savings in most parishes would, if diverted to a Credit Society, supply the latter with adequate capital.

See para. 112.

Societies' Borrowing Powers Act, 1898.

371. The *Friendly Societies Act*, under which the Credit Societies have been registered, does not admit of capital being raised by contributions from non-members. In the earlier years of the movement, this limitation of the borrowing powers was found by the I.A.O.S. to be a difficulty in the way of expansion. Attempts had been made to surmount the obstacle by having funds advanced by the Congested Districts Board to members of the Committees of Credit Societies for agricultural purposes, who in turn deposited these loans in their own names in the Societies, the loans being then used for the specified purposes according to the Rules. This, however, placed an unfair share of responsibility upon the Committee members, since they were thus the only mark for creditors in case of failure to fulfil engagements entered into with outsiders. A Bill was therefore drafted to enable Societies which declared no dividend or bonus, and which lent only for approved purposes, to borrow from persons who are non-members.

This Bill became Law in 1898, under the title of the *Societies' Borrowing Powers Act*.* This useful Act materially assisted the movement, in enabling capital to be provided by way of deposits and loans from non-members, and there is little doubt that but for it the figures of the deposits in Credit Societies would be much smaller than they are. We have no reliable data upon which to form a conclusion, but we are certain that by far the greater portion of the deposits received by the Societies belong to non-members. It should be noted, also, that under the *Friendly Societies Act*,† a Society is not permitted to receive from its members in deposits more than two-thirds of the amount advanced by the Society in loans—a limitation dealt with by us in the Section on Surplus Deposits.

See para. 429.

In spite of the limited number of Societies which have attracted deposits—a number smaller in 1911 than five years previously—the total amount of deposits has steadily increased in recent years by over £2,000 per annum.‡ At this rate of progress, however, it would necessarily be a very considerable time before these Societies as a whole could be considered as fulfilling to any appreciable extent the important function of utilising local savings for the benefit of rural credit.

THE QUESTION OF THE SECURITY OF DEPOSITS IN CREDIT SOCIETIES.

372. In our examination of witnesses who represented Credit Societies we devoted special attention to the question of deposits, and to the causes of the success or failure of each Society in this matter. We also endeavoured to elicit suggestions in the direction of gaining for Credit Societies in a much greater degree than at present the confidence of the

* 61 and 62 Vict., c. 15.

† See Sect. 46 (d) of 59 & 60 Vict., c. 25.

‡ The figures not yet published, for the year 1912 give the total deposits as £30,468, and the number of Societies possessing deposits as 110.

small depositors in the neighbourhood. We propose now to give some typical extracts from the replies which we received. A review of the evidence shows that in many cases the suggestion was made by witnesses that, in view of the Government security attached to the Post Office Savings Bank, and of the general reluctance on the part of small rural depositors to incur risk, Credit Societies could not hope to succeed to any considerable extent in competing with the Savings Banks, unless something in the shape of a Government guarantee for the safety of deposits, or at least Government supervision and inspection, were to be established.

We have been impressed with the fact that in the case of most of the Societies which have already attracted a large amount of deposits the success in this respect is due to the high degree of confidence reposed by the locality in a particular individual, as for instance the Secretary, or the Chairman, or a well-known clergyman who has taken an active interest in the working of the Society. We have even met with cases of Societies being forced to refuse deposits offered to them, so fully has their management inspired confidence. Ballyragget Credit Society is a signal illustration of this; but we believe such instances to be of comparatively rare occurrence. J. Brett, 808.

Evidence in favour of State guarantee for the deposits of Credit Societies.

373. The Credit Society established at Malin, County Donegal, is one of the most successful in the country. In respect of the amount of deposits (£1,242) held on the 31st December, 1911, it took fourth place in Ireland. The district in which it is situated is one which is exceptionally good soil for the operations of a Credit Society. This Society is also conspicuous for the fact that its total capital is composed of deposits, there being no loan capital or overdraft at the Joint Stock Bank. Its Reserve Fund (£197) is the second largest of any Credit Society in Ireland, being only exceeded by that of the Geesala Society, County Mayo. Much of this all-round success is due to the personal efforts of Rev. J. Morris, Parish Priest of Malin, who gave evidence before us. The following is an extract from his evidence:— 14410-13.

Q. "According to the latest Reports of the Post Office Savings Banks throughout the country, there is £4,579 in the Malin Post Office. Don't you think that that money would be better employed in helping the farmers about Malin, than in going to London? A. Yes; that is what we are on—to get our own capital developed. There is no want of money, as I said before. The question is to regulate it—to give a reasonable interest to the owners—and to benefit the poor.

Q. "Would it not be more desirable that local people should put the money into the local Credit Society than into the Post Office? A. If they consider it is equally safe, and got a decent return. But why should not the Government step in and strive to make the local Credit Societies almost as safe as the Post Office?

Q. "You think that should be done? A. It would help.

Q. "To provide capital? A. Yes; that is the very point I imply in my closer Government inspection, and, as I said, share in the responsibility."

The witness went on to describe the nature of the Government protection which he would suggest—a subject to which we shall refer again when dealing with the inspection and supervision of Credit Societies; but we have quoted his opinion in regard to the greater security desirable for depositors in these Societies because such a proposal must carry considerable weight seeing that it was made by a representative of a Society which seems to have hitherto found little difficulty in obtaining deposits. The same views were expressed by many other witnesses, some of them representing Societies which had also been fairly successful in obtaining deposits. See para. 625.

374. Mr. Henry Doran, member of the Congested Districts Board, said in his evidence:—"In substitution for the assistance now given, I suggest that the Department of Agriculture should give a guarantee for deposits to a specified amount in respect of the non-congested districts, and that the Congested Districts Board should do likewise for the congested districts." Reverend J. O'Malley, P.P. (nominated by the Co. Mayo Committee of Agriculture) said:—"If there was a further guarantee—some collateral security—that their deposits would be safe without legal trouble, it would be a good thing. . . . a security from any of the Government Departments." Mr. H. Byrne, J.P., of Money-more, Co. Londonderry, who has taken much active interest in the promotion of co-operation, said:—"I will tell you what I think is an absolute necessity—some kind of Government supervision, the Government's name attached to it to give confidence...If there was Government security or guarantee that any money deposited in the bank would be secure, I believe a good deal of money that is finding its way into the Post Office and other 4830. 10714-5. 15928, 15933.

securities would find its way into these banks. . . . I don't think these Societies will ever succeed unless you have something to give the farmers greater confidence. . . . If the Department would say, 'we will guarantee that any deposits up to £500 in connection with this bank will be secured to the depositors' it would then work, I think."

Further evidence recommending State action for greater security of depositors.

J. Dunlop,
16193-4.

375. A small farmer and Secretary of a Co-operative Agricultural Society in County Londonderry in dealing with the question of the establishment of a Credit Society was asked :—

Q. "Do you think that the Society could attract local deposits? A. I don't believe so, unless the depositors were under the impression they were investing in Government funds.

Q. "They must have a Government guarantee? A. Yes.

B. J. Murphy,
5358-62.

A farming witness, a member of County Kerry Committee of Agriculture, who had taken a leading part in the establishment of a Co-operative Agricultural and Dairy Society, on being asked if there was idle money in his locality replied :—

"I know there is. I know of several instances where money is deposited in the Post Office and Joint Stock Banks at current (generally small) interest.

Q. "Do you think if confidence were established that money could be attracted to the bank? A. Yes; some money has been lodged in our Creamery, and we allow 4 per cent. on it. Some members allow money to accumulate to their credit and other members overdraw their accounts.

Q. "You think you would have a good prospect of getting local deposits? A. If there was confidence in the Credit Society I am sure there would be deposits, if there was some guarantee.

Q. "Have you thought what that guarantee might be? A. If there was some Government guarantee—at least something beyond local security to attract the deposits—at first at all events."

The following is an extract from the evidence given by Rev. E. O'Reilly, P.P., of Kilcormac, Tullamore, who expressed his approval of the general system of Credit Societies, but not of the details of their working :—

16615-6.

Dr. Morrison,
14339-53.
J. Owens, 13558.
P. M'Bride 14041.
J. M'Master,
14963-9.
J. M'Eldowney,
15113-6.
W. Stuart,
16321-3.
P. Dillon, 17680.
M. M'Nelis, 18588.
Rev. J. Carmody,
5027, &c.

Q. "The question is, how are we to get that local money? A. I would make another suggestion. There is at present no central control. There is no confidence in the banking power of the people engaged in these Societies. I would not lodge money in them as a mere speculation, but I might do so through charity. I believe that the farmers who have money would like to go to some place where there is financial security, and where they are sure there would be no defalcations.

Q. "Do you think that if security of a satisfactory kind were provided that people would deposit their money in the local Credit Society? A. Yes."

The Secretary of the Dromiskin Agricultural Credit Society, County Louth, in referring to the question of the Government security offered by the Post Office Savings Banks, said :—"The country people do not consider this matter as an ordinary business man would consider it. Some country people who have lent money have never got it back, and they want to guard against that. They do not mind so much about the rate of interest as the safety of their deposits."

T. McArdle,
16708.

Extracts from the evidence to the same effect could be multiplied if space permitted. We give references in the margin to some of this evidence.

Evidence against principle of State guarantee for deposits of Credit Societies.

376. Several witnesses at our sittings strongly deprecated any Government security in connection with Credit Societies. The following is an extract from the evidence given by Mr. J. Adams, I.A.O.S. Organiser for Ulster :—

16451-60.

Q. "Do you agree that there must be a Government guarantee to make these banks successful in this locality? A. I should be very sorry to see it.

Q. "Many witnesses have stated that there should be a Government guarantee? A. My opinion would be that if you get a Government guarantee you at once destroy the sense of responsibility.

Q. "But you do not destroy the sense of safety—safety is what we are dealing with as regards the depositors.

Q. The Committee would be the first mark, the Government would only be the second? A. In listening to the evidence here, I heard two witnesses suggesting the guarantee of the Government, and it struck me that in that case the members of the Committee would not have the same interest in the Society, because they would say that the Government would pay any debt that was due.

Q. "The Government would only guarantee that there would be no loss to the depositors. A. I do not think it would be conducive to good management at all.

Q. "Do you think it would do any good to try and start Societies here without the Government guarantee? A. I should not like to take the responsibility personally of starting a Society with a Government guarantee.

Q. "Do you think you would meet with any success without a Government guarantee, having regard to the evidence given before us? A. It would be better not to have them at all then, I think."

Other witnesses also expressed views in the same direction, but as their evidence dealt rather with the question of State supervision than of State guarantee for deposits, it will be referred to in the Section dealing with the Inspection and Audit of Credit Societies. See paras. 624-5.

Desirability of State responsibility for the supervision of Credit Societies.

377. Your Committee fully realise that much injury would be done by any Government action which would have the effect of weakening the sense of local responsibility for the good management of a Society. Adequate safeguards against this risk should therefore be provided; and this we believe can readily be done. We do not propose to deal here with the details of such an arrangement, as the subject can be more properly considered in the Section dealing with the Inspection and Audit of Credit Societies. We have referred above to the sense of security felt by depositors in German Credit Societies, partly owing to the connection of these Societies with the State Bank. The weight of the evidence received by us has been undoubtedly in favour of some State intervention for the security of depositors. If the suggestions for supervision, inspection, and audit made in our Report be adopted, we feel assured that such a scheme would result in the gradual development of a sound system of Co-operative Credit Societies which would, in process of time, gain the complete confidence of the rural depositor. See paras. 642-651.
See para. 364.

378. The proposal made by several witnesses that the deposits of Credit Societies should be definitely guaranteed by the State was carefully considered by us. The majority of your Committee do not see their way to make a recommendation to this effect. See paras. 373, 374.

Desire for secrecy in regard to Deposits and Loans.

379. The fact that there is a Post Office Savings Bank in practically every village of any size is undoubtedly a feature of Irish rural life which greatly increases the difficulty of attracting deposits to Credit Societies. The latter do not offer the same security, while the comparative secrecy which is supposed to attend the operations of the Post Office is another strong influence tending to draw deposits to it. Most borrowers are much averse to their financial needs becoming known to their neighbours, and the same desire for secrecy usually exists in the case of those who have savings to deposit. This very general reluctance to allow one's neighbours to become aware of one's financial position was referred to by Mr. Thomas Porter, an Inspector of the Department of Agriculture, who has had experience in connection with Credit Societies to which advances have been made by the Department:— Para. 104.

“I attribute the failure to get deposits, partly, perhaps, to a general ignorance on the part of the people as to the system on which these Societies are worked. They have a little hesitation to deposit their money with a committee of people whom they know quite well. They cannot quite grasp the idea that their neighbours, Michael Rafferty and John Brown, can have the capacity to work a bank. Until the people have some experience of the Society, they have some hesitation in lodging their money in it; but I think there is another reason that is operating largely, and that is the great objection which the small farmer in very many parts of the country has to let his neighbour know what capital he possesses. That is so strongly in the minds of the people that a man with capital will actually go to a bank to borrow money in order to let it be thought that he had not money, and that, therefore, he could not afford to go security for people or to lend money. I have known that to occur several times.” 4883.

The efficient working of a local Credit Society does much after a time to remove this feeling of distrust; but meanwhile it is distinctly a serious factor to be reckoned with.

Failures of Loan Fund Societies have adversely affected Credit Societies.

380. Another reason which accounts to a considerable extent for the reluctance of the small farmers to place their savings with Credit Societies or in any institution not recognised by them as absolutely safe is to be found in the unfortunate history of many Loan Fund Societies, which we have referred to elsewhere. Large numbers of the rural classes lost heavily in connection with these Societies, and learned a bitter lesson of misplaced confidence. Many of them had believed that the Loan Fund Board was a State institution; the supposed Government security was therefore confidently relied upon by the depositors and others. The failures thus associated with so many Loan Fund Societies have proved an almost insurmountable obstacle in many districts to the winning of the people's confidence in Credit Societies, nor will the baneful influence of these past losses disappear, we believe, for a long time to come. See para. 237.

THE RATE OF INTEREST ON DEPOSITS OF CREDIT SOCIETIES.

381. The existing Rules for Credit Societies lay down that the rate of interest payable on deposits must not exceed 4 per cent. per annum. One month's notice of withdrawal of deposits is required. "The Society shall not be held bound to receive deposits, and if the Committee of Management be unable to use for the benefit of the members the whole of any amount which may have been deposited, it may return any such amounts on giving one month's notice of its intention to do so"*

Rate of Interest not so influential as security in attracting deposits.

382. Your Committee have found that the rate of interest paid on deposits varies in the different Societies, within the maximum limit of 4 per cent. The witnesses who have dealt with this subject have been practically unanimous in expressing the opinion that depositors are much more influenced by the question of the security for their deposits than by the rate of interest offered. The fact that the Post Office Savings Banks, though offering only $2\frac{1}{2}$ per cent. to depositors, have been entrusted in Ireland with over 13 millions, is a convincing proof of the value attached to security, while further evidence in the same direction is afforded by the enormous sums (over 62 millions) held by the Irish Joint Stock Banks in deposits and cash balances, though only $1\frac{1}{2}$ per cent., and even less, is as a rule paid by these institutions to depositors.

383. On the other hand we see no reason to doubt but that, given a sense of security, the small rural depositor would be willing to transfer his savings from the Post Office to a local Credit Society for the sake of earning an additional 1 per cent. We believe that in process of time the willingness to make such transfer would be considerably increased by the growth of the co-operative spirit, and the realization of the fact that the depositor's money was now being utilised productively for the benefit of his friends and neighbours, instead of being sent to England for investment in securities. A depositor with a considerable amount in the Post Office need, of course, transfer only a portion of such sum to the Credit Society, should he specially desire to conceal from his neighbours the total amount of his savings.

Relation between rates of interest paid by Savings Banks and by Credit Societies.

384. In Germany, unlike the United Kingdom, the Savings Banks are autonomous organisations, and can vary the rate of interest allowed on deposits so as to suit local conditions. Some pay $3\frac{3}{4}$ or 4 per cent., while others find 3 or $3\frac{1}{4}$ per cent. sufficient to attract ample deposits (especially as Joint Stock Banks have not reached the same development as in this country). The interest paid by Credit Societies in Germany is largely influenced by the rate paid by the neighbouring Savings Bank, and usually exceeds that rate by from $\frac{1}{4}$ to $\frac{1}{2}$ per cent. In 1910, about 52 per cent. of the Societies in the Raiffeisen Federation paid over $3\frac{1}{2}$ per cent on deposits.†

In our opinion, a similar basis of calculation would prove effective in Ireland, *i.e.*, the rate paid by Credit Societies to their depositors should exceed, but not by a large margin, the $2\frac{1}{2}$ per cent. paid by the Post Office Savings Bank. The precise rate of interest, however, to be allowed by any Credit Society is a question which must be decided by the Committee, with due regard to local circumstances. Should it be found that deposits come in slowly, it may be necessary to raise the rate; while, on the other hand, a Society which finds that it cannot fully utilise in loans the deposits offered to it, may find it desirable, if not essential, temporarily to reduce the rate of interest. The important question of the advisability or otherwise of surplus deposits (*i.e.*, those deposits which are not required for lending purposes) being accepted by a Credit Society is dealt with by us elsewhere. The rate of interest allowed on deposits has naturally a very direct bearing upon this subject.

MAXIMUM RATE OF $3\frac{1}{2}$ PER CENT. PER ANNUM ON DEPOSITS RECOMMENDED.

385. The rate of interest to be charged to borrowers for loans advanced is also intimately bound up with the question of the interest allowed to depositors. The expenses of a Society, including any bonus paid to the Secretary, must be defrayed from the profits earned. These profits are derived entirely from the proceeds of the difference between the rate of interest charged to borrowers and that paid by the Society to depositors, to Joint Stock Banks, or to State Departments, for the money obtained on loan from these sources. We consider that a charge of $6\frac{1}{4}$ per cent. per annum (equal to $1\frac{1}{4}d.$ per £ per

* See Rule XIII., Appendix 22 to Minutes of Evidence.

† Report on Agricultural Credit and Co-operation in Germany, pp. 79-80.

month) seems on the whole, for reasons given elsewhere, the most desirable normal rate to be charged to borrowers. That rate has accordingly been inserted in the Draft Rules submitted with our Report.* Many Societies are at present in the habit of paying 4 per cent. for their overdrafts from the Joint Stock Bank, while charging only 5 per cent. to borrowers. The margin of 1 per cent. is, even on a fairly large turn-over, usually much too small to pay the ordinary expenses. From the Annual Reports of the I.A.O.S. it appears that a number of Societies each year return a loss instead of a profit. In the year 1911, for instance, 19 Societies reported a loss, while 12 seem to have just succeeded in making ends meet. This result has been mainly due to an inconsiderable turnover, and the existence of too narrow a margin between the rates of interest on deposits and loans. See paras. 499-500.

After a good deal of consideration, we believe that the normal rate which should be paid to depositors is $3\frac{1}{2}$ per cent. per annum. This rate would exceed by almost 1 per cent. the amount paid by the Post Office Savings Bank, while another point in its favour is that it is easy of calculation by local secretaries, being equivalent to a charge of 8d. in the £ per annum. Taken in conjunction with a charge of $6\frac{1}{4}$ per cent. to borrowers, it leaves a margin of practically 3 per cent. for profit, assuming all the deposits to be turned over as capital once in the course of the year. If a Society wins the confidence of the people in a district, there is little doubt but that the offer of $3\frac{1}{2}$ per cent. on deposits will suffice to attract local savings. Even when the Ballyragget Society reduced its rate of interest from $3\frac{1}{2}$ to 3 per cent., the change caused no withdrawals of deposits. J. Brett, 776.

Deposits not desired by Societies when Funds can be obtained more easily and at lower rates from Banks or the State.

386. Another strong reason for fixing the maximum rate of interest on deposits at $3\frac{1}{2}$ per cent. is that this rate is lower than that charged by the Joint Stock Banks on overdrafts to Credit Societies, *i.e.*, 4 per cent. as a rule. If the depositors receive a rate equal to or higher than that at which funds can be had from the Banks or State Departments, there is a distinct danger that the Committee of the Society will make little effort to obtain deposits, and will even discourage them. Of this tendency we received ample confirmation at our Inquiry. It was evident that many Societies had no desire to accept deposits, and that they were actuated in this policy by two main considerations:—First, the dealing with depositors naturally entails much more trouble to the officers of the Society, both in soliciting deposits and in the subsequent transactions connected with receipts and withdrawals, than is involved in the convenient plan of securing a permanent overdraft with a Joint Stock Bank or a loan from the Department of Agriculture or the Congested Districts Board. Secondly, interest at the rate of 4 per cent. is usually payable on deposits under the Rules of a Credit Society, while funds can be had, as a rule, more easily from the Joint Stock Banks at the same rate, and from the above-mentioned State Departments at the lower rates of 3 or $3\frac{1}{2}$ per cent. See para. 438.

As there is thus under the existing arrangements both a considerable saving of trouble, and frequently a saving also in interest paid, by resorting to other sources of capital than local deposits, it is little wonder that the thrift side of the Irish co-operative movement has made so little progress, especially when the other obstacles which have their root in the general reluctance amongst possible depositors to reveal any of their financial affairs to a Committee of their neighbours are taken into account.

In the Section dealing with State advances to Credit Societies we have recommended, for the reason above indicated, that in the case of any State loans allowed to remain with Societies—and such financial aid should be given, in our opinion, only in very exceptional cases—the rate charged by the State Department concerned should be at least $3\frac{1}{2}$ per cent. See para. 597.

The importance of attracting small deposits.

387. The proposal that a higher rate of interest should be given on small deposits than on large was considered by us. There are several reasons in its favour, but we do not see our way to making any general recommendation in the matter, beyond stating that if any difference be made, it should be in the direction of offering less than $3\frac{1}{2}$ per cent. on large deposits, not by offering more than this rate on small sums. We fully agree that from every point of view it is better that the local deposits of a Society should be obtained in a large number of small sums than in a fewer number of considerably large

* See Rule 30, p. 394 of Report, and Rule 25, p. 401.

amounts. The accumulation of the small savings of the people encourages thrift, and extends more widely the savings bank side of a Society's operations. Again, the Society itself runs less risk from the liability to sudden and unexpected withdrawal of deposits, if the latter be composed of comparatively small individual sums. Several instances have come under our notice where considerable inconvenience was caused by a depositor unexpectedly withdrawing a large deposit. The existence of a potential bank overdraft to some extent obviates the inconvenience arising from such a cause, but the general advantages on various other grounds of the encouragement of small deposits are very considerable.

We have in our Draft Rules emphasised the importance of this aspect of the question of deposits by making the larger deposits subject to a slightly longer notice of withdrawal. We have also proposed that the limit for individual deposits in Credit Societies should be £50 (unless with the special sanction of a General Meeting), and that the maximum amount to the credit of any depositor should not exceed £100.*

CONCLUSIONS.

388. The following is a summary of our main conclusions and recommendations in regard to deposits in Credit Societies.

(a) One of the most striking features of co-operative rural credit on the Continent has been the enormous development of the thrift side of the movement in spite of the competition of Public Savings Banks, and similar institutions.

(b) In the Irish Credit Societies, on the other hand, the failure to attract deposits has been very general. Out of 163 Societies, 65 had, in 1911, no deposits whatever, while only 61 had deposits exceeding £100. Of the total deposits of £27,290 for all Ireland, over half was held by 14 Societies.

(c) Although there has been an increase in the total of deposits, there is, unfortunately, no indication of any considerable increase in the number of Societies attracting deposits. The increase in the total amount of deposits has been almost entirely due to the addition to deposits in the cases of a small number of Societies.

(d) The chief obstacles to the growth of deposits in Credit Societies in Ireland are (1) the competition of the Post Office Savings Banks, which offer Government security combined with secrecy; (2) the widespread reluctance of persons with savings to allow the fact to become known by their neighbours; (3) the distrust in many instances of the business aptitude of the local Committee; (4) in some districts the disastrous results following the failure of Loan Fund Societies; and (5) the fact that funds could hitherto be usually obtained more cheaply and with less trouble from State Departments or Joint Stock Banks than from depositors.

(e) The great weight of the evidence received by us from those connected with the actual working of local Societies, and from witnesses representative of the membership of the Societies, was in favour of the Department of Agriculture taking steps with a view to inspiring the confidence of depositors. They urged that without some such State supervision it was hopeless to compete with the Post Office Savings Banks, or to overcome the other obstacles referred to above.

(f) Under the scheme outlined by us for the establishment of a system of Credit Societies under an Agricultural Credit Section of the Department of Agriculture (assisted by an Advisory Committee), with re-organised methods of audit, inspection and supervision, combined with full local responsibility for the proper management of the Societies, there is little doubt but that the confidence of depositors would increasingly be gained, although progress would inevitably be slow.

(g) The rate of interest offered on deposits is not so influential a factor as security, in attracting savings. The rate should not, in our opinion, exceed $3\frac{1}{2}$ per cent., which would be higher than that offered by the Post Office Savings Banks, while not so high as that paid to the Joint Stock Banks for advances on overdraft. In those very exceptional cases where State advances are allowed for a time to remain with Societies, the rate charged should be at least $3\frac{1}{2}$ per cent.

(h) The local Committees should be empowered to lower the rate of interest on deposits below $3\frac{1}{2}$ per cent., in certain circumstances indicated in our Report. Preference should be given by Credit Societies to small as compared with large deposits. The latter should also be accepted subject to a longer notice of withdrawal than the lesser amounts.

* See Rules 26-8, p. 394 of Report, and Rules 21-3, p. 401.

(d) SURPLUS DEPOSITS AND CENTRAL CREDIT INSTITUTIONS.

The consideration of the subject of deposits in Credit Societies involves two special problems of some difficulty which are so closely connected that they can be most conveniently dealt with together, and apart from the more general aspects of the subject, treated of in the preceding Section.

THE PROBLEMS OF SURPLUS DEPOSITS AND CENTRAL CREDIT INSTITUTIONS.

389. The first of these is the question as to the desirability or otherwise of a Credit Society's accepting deposits from its members and others, in excess of the amount which the Society finds itself able to lend to its borrowing members. This excess of deposits over the normal borrowing requirements of the members of the Society we shall, for convenience' sake, hereafter term "surplus deposits."

Closely connected with this question of surplus deposits is that of the formation of a Central Credit Institution. It is evident that if various local Societies were to accept in deposits considerable sums beyond what they could profitably utilise in loans, the existence of a Central Institution to act as a "clearing house" would become essential, in the absence of other suitable place of investment where the surplus deposits could be placed at short notice of withdrawal, and at a rate of interest at least equal to that given by the Credit Society itself to its depositors. This Central body would be in a position to receive surplus funds from some Societies, and to lend these funds to other Societies in which the deposits or other capital failed to attain the amount normally required for issue as loans to borrowers.

The business of a Credit Society is, as a rule, carried out upon the assumption that local deposits, with other sources of capital, will be adequate to meet the credit needs of the locality, and that, on the other hand, these needs will be approximately sufficient for the utilisation of the total available capital. But local circumstances are apt to cause a considerable variation in this normal balancing of demand and supply. Deposits will tend to increase largely in one district, while in a neighbouring district they may be obtained with difficulty. We have had evidence of this fact during our Inquiry.

Need for elasticity in funds of Credit Societies.

390. Another feature in the case is that the rural Credit Society operates in a comparatively small area, while the majority of its members depend, as a rule, for their livelihood upon the same source, i.e., agriculture. But, as we have pointed out in the introductory portion of our Report, the agricultural industry is one which creates an exceptionally large demand for capital and credit at certain seasons of the year, while at other seasons this demand is much diminished. Money, again, is usually scarcest with farmers at the season it is most required. For these and other reasons it is a matter of importance that local Societies should have readily available some resource by which the supply of capital at their command may be rendered more elastic; so that sudden withdrawals of deposits or unexpectedly large or numerous applications for loans may not unduly inconvenience their operations. See para. 21.

We have seen, when treating of the Joint Stock Banks, that they cannot as a rule make advances for so long a period as 8 or 10 months, seeing that a great part of their funds is held at call or at comparatively short notice. This difficulty can be overcome in the case of Credit Societies by having what has been termed a "money balancing place"* where the Societies may obtain capital when their own resources are insufficient, or may lodge their surplus funds. On the Continent the necessary elasticity in the funds of Credit Societies has been obtained chiefly by the formation of a large number of Central Banks. In Ireland the object has been partially attained—so far as obtaining additional capital when required is concerned—by means of potential overdrafts at the Joint Stock Banks; but the problem of how to deal with surplus deposits in Societies has hitherto remained untouched by this arrangement. See paras. 57-9.

Two types of Central Credit Institution.

391. In regard to a Central Credit Institution, the further question arises as to whether its functions should be merely those of a clearing house, or common "cash box," for the

*Article on "Central Bank of Newwied," in *Report of 6th Congress of International Co-operative Alliance*, 1904, p. 365.

Paras. 421-2.

purpose of equalising excess and lack of capital over the various Societies of the country ; or whether such functions should be extended so as to comprise all the ordinary operations of banking, including the investment of funds in suitable securities and the reception of deposits from outsiders. This latter type of central body is usually termed a "Central Bank." As we shall see, any central body attempting to confine itself to the functions of a clearing house is soon met by difficulties which usually lead to its undertaking the rôle of a fully-fledged banking institution.

CENTRAL BANKS IN GERMANY.

See paras. 359-61.

392. It is natural that in Germany, the cradle of co-operative credit, Central Banks should have attained their highest development. A very high proportion (over 90 per cent.) of the working capital of rural Credit Societies in Germany consists of deposits. The savings deposits amounted in January, 1910, to the huge sum of £92,429,000, and the deposits on current account to £10,865,000. It is obvious that with this accumulation of large funds in the local Societies, the question of the formation of Central Institutions or Banks soon became a vital one. To quote Mr. Cahill's Report : —

"From the beginning, Raiffeisen recognised the necessity for combination among rural credit societies, so as to provide them with a permanent centre at which depositing and borrowing might be advantageously transacted by non-profit-seeking organisations which at once understood and took account of the special financial structure of co-operative societies and of the conditions of their business. At the present time over 90 per cent. of the rural credit societies are shareholders or members of co-operative central banks, of which there are nearly fifty (including as separate banks the twelve branches of the Raiffeisen Central Loan Bank) in Germany.

"These central banks are organised according to provinces or States. The German Agricultural Central Loan Bank, founded by Raiffeisen in 1876, extends its operations over the whole of Germany, but it has decentralised its business by the creation of 12 branches, which limit their operations to fixed areas co-extensive with a province, part of a province, or adjoining provinces, a State or congeries of small States, and which form in fact provincial banks. The other central banks in Prussia are attached to the Prussian State Central Co-operative Bank, which occupies in regard to them in some respects the same position as the Raiffeisen Bank occupies in regard to its branches. The scheme of organisation for Prussian societies is, therefore : (1) local societies balancing as far as possible monetary supply and demand among their members ; (2) provincial banks adjusting similarly the needs of their constituent local societies ; and (3) larger organisations at Berlin (namely, the State Bank and the Raiffeisen Central Loan Bank) balancing supply and demand amongst the central banks, obtaining necessary credit, and making necessary investments on the money market for them.

"Outside Prussia no State Central Co-operative Bank has been established, but in all the larger States the central banks are in receipt of State advances or credit to assist them when the monetary demands of the local societies are in excess of the deposits of the latter and of other available capital."*

CO-OPERATIVE UNIONS AND FEDERATIONS IN GERMANY.

393. In addition to being affiliated for financial reasons with a Central Co-operative Bank, the great majority of Co-operative Societies in Germany, whether organised for credit or other objects, have united to form central organisations, entitled Unions, for purposes of united action, inspection, audit, &c. In June, 1912, 95 per cent. of all the German rural Credit Societies were thus grouped under Unions. Between the Unions and the individual Societies there is also frequently found a further grouping of Societies into Sub-Unions. Above the Unions come the large Federations to which the Unions are affiliated. There are two great Federations : the Imperial Federation of German Co-operative Societies, and the Raiffeisen, or General, Federation of Rural Co-operative Societies. In 1905, however, the Raiffeisen Federation amalgamated with the Imperial Federation, and surrendered the general representation of its Unions to that body. Both Federations, however, still retained important separate functions.

Raiffeisen and his followers were of opinion that all Co-operative Societies should be directly affiliated to a single central organisation operating for the whole of Germany, but Schulze-Delitzsch and Herr Haas held, on the other hand, that the organisation of such Central Federations should be rather by provinces or States, so as to have regard to the varying conditions, historical and economic, in different parts of the country. These provincial or State bodies were, however, to be co-ordinated in a Central Federation for general purposes. This latter view in favour of local autonomy was agreed to by the head of the Raiffeisen organisation in 1899, since which date decentralisation of the Raiffeisen system has been proceeding. No general description can be given applicable to all the Co-operative Unions in Germany ; their regulations and functions vary in the different States and provinces.†

* *Report on Agricultural Credit and Co-operation in Germany*, xvii., xviii.

† An exhaustive account of the work of these Unions will be found on pages 228-259 of Mr. Cahill's Report.

Differences between Irish and German conditions.

394. We have said enough in regard to the central organisations in the German co-operative system to indicate how elaborate and highly organised that system is. We have, however, not attempted to enter into details, for we do not think that under present conditions in Ireland any elaborateness of organisation approaching that of Germany is likely to be called for. In the consideration of this question of Central Credit Banks and Unions there is special need for keeping in view the differences in the historical and economic conditions of Germany and other Continental countries as compared with Ireland.

Those witnesses who gave evidence before us on the matter differed considerably in their views as to the desirability of establishing, at any rate in the near future, a Central Co-operative Bank in Ireland. No doubt Raiffeisen, ten years after the foundation of his first Credit Society, when there were not very many such Societies in existence, established a Central Bank at Neuwied; but the fact that thus early in the German movement Central Banks were created does not, in our opinion, constitute a conclusive argument for the formation of such a Bank in Ireland. Indeed, some of the best German authorities now admit that the failure of the original Central Bank at Neuwied was due to its premature creation. "Only a brief time ago, Herr Haas very reasonably explained the collapse of the first Neuwied Central Bank as having been the consequence of the Bank—which was good in itself—being started too soon, before conditions were ripe for it."* We have occasion to refer later on to the recent disastrous failures of the Central Co-operative Bank of Darmstadt, and the National Co-operative Central Bank of Frankfort-on-Main.

See paras. 405-9.

Utilisation by various German Credit Societies of ordinary Banks as Central Banks.

395. We observe that in spite of the great development of these Central Banks in the provinces and States of Germany, the 425 rural Credit Societies in Baden have not thought it necessary to establish an independent Central Bank, but have agreed with the Rhenish Mortgage Bank in Mannheim to act as their banker. One of these Societies is that at Eggenstein, near Carlsruhe, founded in 1873 by the District Agricultural Instructor. Mr. Cahill, in his interesting record of his visit to this Society, states that it has an account with the Mannheim Mortgage Bank, which grants it a credit of £2,500, ample for its needs. The interest charged on overdrafts is $4\frac{1}{4}$ per cent., and a half-yearly commission of $1/10$ per cent. on the amount overdrawn. The Society receives from the Bank 4 per cent. upon deposits. In addition to depositing surplus moneys with the Bank, the Society also tries to find borrowers among its fellow Societies, to which it lends at $4\frac{1}{4}$ or $4\frac{1}{2}$ per cent., plus a commission of $1/10$ per cent.†

Again, the Schulze-Delitzsch Societies do not bind themselves to carry on their dealings with any Central Bank, but do their business with any bank that suits their convenience. "The Dresdner Bank, with its immense resources, now acts as Central Bank for the Union, and there appears to be no cause for complaint."‡ A few Sectional or District Banks have, however, been established.

Evidence of Secretary of I.A.O.S. in favour of a Central Co-operative Bank.

396. Mr. R. A. Anderson, Secretary of the I.A.O.S., in his evidence on this branch 1796-1803. of the subject said :—

"I think the inspection of these Credit Societies ought to be undertaken by the Central Bank rather than by the Organisation Society, and my reason for saying so is this—my opinion of a Central Bank for these Societies would be a body which would negotiate advances on their behalf—that this should be done by the Central Bank and not by the local Societies. On the Continent this is never done. This Central body would have the right to inspect the accounts of the local bodies and the right to send their inspectors and auditors there, and its duty would be to collect statistics and see that everything was carried out properly. It ought to be a co-operative body. It ought to be a federation of the existing scattered Societies all over the country. If the law requires an amendment, then the law must be amended.

Q. "Are you in favour of establishing a Central Bank.?" A. Yes, but quite apart and independent of the Joint Stock Banks. I have been in favour of it for a dozen years or more. . . . I guard myself very carefully from stating that this Central Bank should compete with the Joint Stock Banks because each has its function. . . . The Credit Bank would still have its local bank account, but between the local bank and the Joint Stock Banks you would have the Central Bank as a sort of buffer state. . . . At the present time one of the Joint Stock Banks would lend money to a local Credit Society, and if it were not satisfied that things were going right, it would proceed to recover the money, to stop the credit, and trouble might be experienced in getting that money in, and that would involve the Joint Stock Bank in taking proceedings against persons in the

* See *People's Banks* (3rd edition) Wolff, p. 218.

† *Report on Agricultural Credit and Co-operation in German* 115.

‡ *People's Banks*, pp. 118-9.

district, which is a thing a Bank hesitates to do and is slow to do. Instead of doing that, I propose that the Central Bank should be a body responsible to the Joint Stock Bank for the repayment of that money and should recover it—that the Joint Stock Bank should not appear in the matter at all.”

1814-20.

397. Mr. Anderson went on to indicate that the principal purpose of a Central Bank would be to exercise supervision over the federated Societies, and that for some time the Central Bank would require to obtain a grant from public funds to assist it in carrying on its work. When asked his view as to whether individual Societies should accumulate surplus deposits, he replied :—“ I do not think they should.” But he pointed out that to attempt to restrict Societies from accepting such excess deposits would mean constant enquiry into the affairs of each Society.

“ It would be sounder not to put any restrictions on them, and let them exchange their surpluses. I think that the plan of trying to measure the amount of deposits by the lending out would be perfectly impracticable in everyday work.

Q. “ What about the local Joint Stock Bank taking the surplus ? A. “ It takes in the deposits, but does not necessarily relend that money to the Societies.

Q. “ No. But won't it allow you 2½ per cent. on your deposits ? A. “ Yes.

Q. “ Would the Central Bank do anything better for you ? A. “ I doubt it.”

The witness added that, in his opinion, the term Bank for the proposed institution was a misnomer, as it was “ not a Bank at all.” He suggested “ Central Federation ” as a suitable title.

1981.

Mr. George Russell also expressed the view that a Central Co-operative Bank would probably not be in a position to give the local Credit Societies any better terms than they now obtain from the Joint Stock Banks.

Views of I.A.O.S. Committee in 1909 as to prematureness of scheme for Central Credit Society.

398. We note that from time to time references have been made in the Annual Reports of the I.A.O.S. to the project of a Central Co-operative Union or Bank for Irish Credit Societies. The Report for 1902, which discussed the question at some length, stated :—

“ For the present it seems likely that a Union of Agricultural Banks would be somewhat premature, and, if started at all, should be run on the most modest lines simply to act as a Clearing House to equalise supply and demand in the federated Societies.

“ In thus criticising the question of a Union of Agricultural Banks, it must not be understood that the Committee refer to the larger question of the finance of the whole movement through a Bank intended to deal solely with Co-operative Societies which may or may not be necessary in the future, but which, owing to the very reasonable terms at which Societies are now financed by the Joint Stock Banks, is not a matter needing any very pressing consideration.”

The Report for 1909, after mentioning that the question of the establishment of a Central Credit Society had been referred back to the I.A.O.S. Committee by the previous Annual General Meeting, stated that “ having given the idea very full consideration, the Committee have been forced to the conclusion that the time is not yet ripe for launching upon the movement a project so ambitious and so far-reaching in its effects.”*

Proposals of Secretary of I.A.O.S. for Central Credit Institution.

399. The Report for 1910 reproduced a paper read by Mr. R. A. Anderson at the Annual Meeting of the I.A.O.S. in that year, entitled *Co-operative Credit: suggested Establishment of a Central Credit Bank*. Mr. Anderson made it clear that the views thus put forward were his own, and that he did not profess to reflect the opinions of the I.A.O.S. Committee. He suggested that for the present one Federation for Ireland would be sufficient, the following being its functions :—

- (1) To act as a Clearing House for the reception of surplus funds from Societies and the relending of such funds to other Societies.
- (2) To attract deposits from people who were unwilling that their neighbours should become aware that they were possessed of money.
- (3) To provide a safe place of investment for the reserve funds of local Credit Societies.
- (4) To act as an intermediary through which advances could be made to the local Societies by the Joint Stock Banks and Government Departments.
- (5) To lay down the necessary rules governing the employment of loans by federated Credit Societies, and, by arrangement with the I.A.O.S., to delegate to that body the duty of inspecting and reporting upon the financial and general position of the Societies.

* We refer elsewhere to the steps taken by the I.A.O.S. during the sittings of our Committee for the registration of Central Co-operative Credit Society (see paras. 436-6A.)

After referring to the benefits of the existing arrangements for overdrafts with the Joint Stock Banks, as providing an elastic and economical method of finance, Mr. Anderson proceeded :—

“ The undesirable features of such transactions are (a) that in making these advances, as a general rule, the borrowing society is practically ignored and the money is lent on the joint and several security of the members of the society's committee to whom (or rather to the richest members) the bank will alone look for repayment of their advance, and (b) that as no intermediary body exists, through which the advance could be made to the local society and which could offer security for its re-payment, the bank which finances the society is forced, in the event of default, to proceed against certain of the wealthiest guarantors, who are probably also the bank's own private customers, thereby incurring a considerable amount of odium.”*

400. Mr. Anderson submitted to your Committee a Memorandum outlining a scheme for the establishment of a “ Central Credit Association for Ireland.” The primary object of such Association is described as the provision of a medium through which local Credit Societies, possessing surplus deposits, might transfer such funds to other Societies where the demand for loans exceeded the capital available ; at a later stage the Association might itself provide security which the Joint Stock Banks and Government Departments would be prepared to recognise, and might become the medium through which advances were made by these bodies to Credit Societies. The Association, being itself secured by the unlimited liability of the members of the local Credit Societies, would be in a position to offer as security to any lending bodies its guarantee, preference, and ordinary shares, as well as its reserve fund.

The proposed Association would have three classes of members : (a) individuals taking guarantee shares (one-tenth paid up), bearing interest not exceeding 5 per cent ; (b) Industrial and Provident Societies holding preference shares (fully or part paid), bearing interest at 3½ per cent. ; (c) Credit Societies holding at least one ordinary share, bearing interest not exceeding 5 per cent. (no portion of a Credit Society's funds, save the reserve fund, to be so invested, and then only if authorised by the rules).

Other proposals for Central Co-operative Bank in Ireland.

401. Mr. H. de F. Montgomery has given in his *Notes on Agricultural Co-operation and Co-operative Agricultural Credit in Germany*, published as a Bulletin by the Department of Agriculture, a suggested outline of the constitution of a Central Co-operative Bank for Ireland :—“ Let a Central Co-operative Agricultural Bank be started under the control of a Board comprising an able and experienced bank manager, an experienced organiser of agricultural co-operative societies, a representative of the Department, and a representative chosen by the co-operative societies, with power to receive, invest, and trade with deposits entrusted to it by individuals, the spare money of co-operative societies, &c., and to make advances to registered co-operative societies, being subscribing members of the Central Society, on approved security, under rules analogous to those of the German *Centralkassen*.” Mr. Montgomery also suggests that the Department of Agriculture should make an initial grant to the Central Bank for preliminary expenses, and an annual grant for administrative expenses, until such time as the Bank could make sufficient profit to pay its own current expenses.†

Mr. Thomas Porter, of the Department of Agriculture, expressed the opinion that a Central Bank, backed up by the security of all the affiliated Societies and by Government, would command confidence and would attract a very large amount of deposits. He suggested that there might be a Board of Control containing representatives of the affiliated Credit Societies, a member representing the I.A.O.S., a member thoroughly experienced in banking matters, and a representative of the Government. 4894-9

Auditor of I.A.O.S. considers a Central Bank unnecessary for the financing of Societies.

402. When asked his views as to a central supervising authority for Credit Societies, Mr. Swain, Auditor of the I.A.O.S., replied :—

“ At present, so far as I can see, there is no necessity for a central bank as far as finance is concerned, unless you are going to have a supervising body—you can call it a bank if you like—but these societies have no surplus capital, save in a few cases like Ballyragget. How are you going to finance your central bank ? And the facilities which the Joint Stock banks afford are very good. As far as financing the credit societies is concerned, I don't think a central bank is necessary ; but I would say that you should have some sort of a supervising body, which, in addition to making the recommendations which we make and giving the advice which we give, should compel the societies to carry out these recommendations and to take the advice offered.” 4705-7

* See *Annual Report of I.A.O.S. for 1910*, pp. 52, 3.

† *Bulletin 2*, (Department of Agriculture and Technical Instruction for Ireland), p. 31.

View of Mr. George Russell that attitude of Joint Stock Banks renders a Central Bank needless.

403. Mr. George Russell, Editor of the *Irish Homestead*, while expressing himself at our Inquiry as in favour of a Central body with powers of supervision and audit, said :—
 “ I think any advance towards what is called a Central Bank in Ireland should be done with caution. I do not see any present reason for doing so myself, the Joint Stock Banks have been so friendly.” We notice also that in the *Irish Homestead* of 29th June, 1912. there appeared an article entitled “ Linking up the Credit Societies.” In this article the importance was urged of efficient inspection and audit of the local Credit Societies, and reference was also made to the subject of Central Banks. We quote the following extract :—

“ There is one type of body which in particular we believe the Agricultural Credit Committee should be shy of. That is a Central Bank. We do not mean, of course, that we are opposed to the institution called by this name when it is instituted under proper conditions and when the time for it is ripe. A Central Bank is a very useful, sometimes an indispensable adjunct to a co-operative movement. It is especially useful and often absolutely necessary to the credit branch of a co-operative movement. But that is when and where credit facilities not otherwise obtainable can best be had by having recourse to that expedient. A ‘ bank ’ as its name indicates, is intended to provide finances, to use them for purposes of lending, to make its profits on each transaction, and to pay a dividend to its members. It should not be confused with a Central Union, an institution of a quite different type which exists to bind the societies close together, and give them cohesion through a body to which certain governing powers are delegated, powers of inspection and audit, powers of advice, and, within limits, powers of control.”

In his opinion no case had been made out for the establishment of a Central Bank, but there was no reason why a modest scheme for forming a Federation should not be attempted. In giving evidence before the Select Committee of the House of Lords on the Thrift and Credit Banks Bill in 1910, Mr. George Russell stated that “ as long as the joint stock banks are friendly to us we do not wish to start any rival institution. At present they afford our co-operative societies in Ireland money on overdraft on very reasonable terms. They recognise the co-operative principle and the co-operative society, and they lend at 4 per cent.”

Evidence of Mr. H. W. Wolff against a Central Bank for Ireland.

404. The above expressions of opinion in favour of the conclusion that at present there is no need for a Central Co-operative Bank in Ireland were supported by Mr. H. W. Wolff in his evidence at our Inquiry. The following is an extract from his evidence :—

Q. “ What I take you to be in favour of is rather some central body, or union, or organisation, which would supervise the working of the local societies. ? A. Yes ; I am very much in favour of that. To tell the truth, I don’t see what you want a central bank for. I am told there is scarcely an agricultural bank in Ireland that has not credit with some joint stock bank, and then why form a central bank ? The two purposes for which a central bank is formed are to equalise local overplus and local want, and to ‘ tap ’ the money market in case of special requirements. A central bank might have better credit than local societies. It would probably be managed on bankers’ lines ; but you don’t seem to have any requirement for that in Ireland at present.

Q. “ Your view is that if the local societies could be financed otherwise than through a central bank for example, as at present by local deposits, that would obviate the need for a body such as a central bank. ? A. That is my point of view, but I should leave it entirely to the Irish societies themselves. If they want to form a central bank, let them do it.

Q. “ I want to get your judgment as to what you consider would be the most prudent line of development. ? A. My impression is that they don’t want it, but at the same time if they wanted to form a central bank there is no reason why they should not do so.”

See paras. 406–9.

We note that Mr. Wolff subsequently wrote to the *Irish Homestead* supplementing the evidence given by him at our sittings with further information in regard to the recent history of Central Banks in Germany. He stated, “ Be very careful how you start a Central Bank ! A Central Bank in the right place, skilfully and carefully administered, is an excellent thing. But there are great dangers surrounding it, pitfalls of which it is difficult to keep clear. You want a considerable capital, you want favouring circumstances, and you want quite specially skilled administration.”*

RISKS RUN BY CENTRAL CO-OPERATIVE BANKS.

405. In his latest book Mr. Wolff emphasises the risks which are run by Central Banks. He says :—“ In all probability, if only people in this country knew what serious difficulties and embarrassments ‘ Central Banks ’—formed under the impression that theirs would be an easy task—have had to struggle with, they would be less keen upon

* *Irish Homestead*, September, 1912.

starting one—possibly to serve as a rod for their own backs. There is not one which has not found most troublesome difficulty coming upon it, such as has in the principal cases concerned led up to the very precipice of insolvency and liquidation.”*

Recent unfortunate events in connection with two Central Banks in Germany add point to these words of warning. A full account of these failures, involving in ruin a series of loan and savings banks in the Grand Duchy of Hesse and the total loss of hundreds of thousands of pounds by two Central Co-operative Banks (the Agricultural Co-operative Bank of Darmstadt and the National Co-operative Bank of Frankfort-on-Main) is given in the *Bulletin of Economic and Social Intelligence* for December, 1913, in an article entitled “*Causes and effects of the recent want of success in the department of Co-operative Agricultural Credit in Germany, and the lessons to be learned from it*,” by Dr. Grabein of Berlin. So much has been written and said about the phenomenal success of German rural credit organisations that it is little wonder that, as pointed out by Dr. Grabein, “even in foreign countries where the splendid development of German agricultural co-operation was followed, fully approved, and often taken as an example, these recent events have produced a profound impression in co-operative circles.” We have space only for a brief outline of the history of these failures and their causes.

Recent failure of Central Co-operative Agricultural Bank of Darmstadt.

406. The Central Co-operative Agricultural Bank of Darmstadt was founded in 1882 as a Society limited by shares. In January, 1912, it had 409 Credit Societies, in addition to other Co-operative Societies, attached to it. In March, 1913, these various Societies were startled to learn that their Central Bank had either to suspend payment, or to ask for time to wind its business up. This was due mainly to the locking up of £425,000 in the National Co-operative Bank of Frankfort-on-Main, and to the making of a grant of £250,000 as a credit to the Administration and Sale Co-operative Society. The managers of the Darmstadt Central Bank, in view of the serious situation of the Frankfort Central Bank, found that there would be a difficulty in realising on their shares (£25,000) in the latter, or in obtaining repayment of the loan referred to. The shares they wrote off as irretrievably lost.

The advances amounting to a total of £250,000 made to the Administration and Sale Co-operative Society led to similar difficulties. This Society was formed some years ago by the Credit Societies in Hesse to purchase, administer, and sell the real estate in which the Societies had unwisely invested their surplus deposits, a subject to which we refer later. As the market was not favourable for the sale of houses or buildings, the Darmstadt Central Bank found this further large portion of its funds locked up. The failures of many of these Credit Societies in Hesse, and the rumours as to the financial position of the two Central Banks referred to, led to a panic among the Societies and the depositors, and the withdrawal of a large portion of the deposits. The Prussian State Central Co-operative Bank rendered generous aid, but in March, 1913, the Darmstadt Bank had to go into liquidation; most of the share-holding Societies agreeing to a delay till the end of 1914 so as to ensure private liquidation. See paras. 430-1.

A new Central Bank for Hesse has been started, and has been granted credit by the Prussian State Central Co-operative Bank to the extent of £210,000 at 5½ and 6 per cent, interest. Also in December, 1913, a Bill was passed, by which a loan of £50,000 from the Government of the Grand Duchy of Hesse was made, while the Government has opened a credit of £100,000 in favour of the new Bank. The Bank is to be subject to strict State supervision, embracing all branches of its business, until the advances have been repaid. The State Commissioner is also empowered to supervise the work of the Co-operative Societies having relations with the Central Bank, and the sanction of the Government is required for any alteration in the Rules of the latter. These steps have already done much to restore public confidence, and money which had been withdrawn has apparently begun to flow in once more.†

Serious Losses to Credit Societies and shaking of confidence through failure of Darmstadt Central Bank.

407. It seems difficult to estimate the losses to the Co-operative Societies, credit and other, caused by the disastrous failure of their Central Bank. The Bank has asked the Societies provisionally to renounce half their credits, so as to lessen the debt of the Bank.

* *Co-operation in Agriculture*, pp. 266-7.

† See article in *Genossenschaftspresse*, 15th January, 1914.

It is probable that the Societies have lost at least £550,000, distributed very unequally amongst them. Thus the Societies indebted to the Bank only lose their shares, while the Societies which entrusted their surplus deposits to the Bank will probably lose very heavily, and their members will be called upon to make serious sacrifices for new share capital.

As pointed out by Dr. Grabein, "another thing seriously to be deplored from the point of view of the Co-operative Societies is that confidence is shaken, and this is no less serious a matter than the material losses already sustained, not to mention those still to be feared." He prophesies that the next balance sheets of a certain number of Credit Societies "will probably show a considerable decrease in the savings deposits, and, at least at first, a decrease in the amount of new deposits. Similarly, we may understand that, above all, the better-off members declare their desire to withdraw from banks founded almost exclusively on the system of unlimited liability. There are other consequences, such as the changes caused by passing from the system of unlimited to that of limited liability, which will appreciably reduce the basis of credit; as a result the weaker Societies will be dissolved, and a group will leave the *Reichsverband*." The whole question of the catastrophe, and the liability of the members of the Board of Management and of the Court of Supervision of the Darmstadt Bank, is being enquired into by a Commission.

Failure of the National Central Co-operative Bank, Frankfort-on-Main.

408. Another recent disastrous failure, that of the National Central Co-operative Bank, Frankfort-on-Main, emphasises still further the risks attached to Central Banks, unless very wisely managed. This Bank was founded in 1902, being intended as a Central Institute for the money and goods business of certain Central Banks and Co-operative Purchase Societies. Unwise speculation and lack of support of Societies by their members led to the cessation of the goods department in 1908. In this year the Bank unfortunately entered into relations with the Agricultural Credit Bank of Frankfort-on-Main, a mixed mortgage bank, which had been mismanaged by its Board. This latter Bank had the right of issuing land-bonds, and had engaged in very risky speculations in land, mines, &c.—a fact discovered too late by the National Co-operative Bank. The latter had to give credit up to about £700,000, which finally led to its private liquidation in September, 1912. Efforts are now being made to re-establish the Agricultural Credit Bank on a revised basis.

Lessons from recent failures of Central Co-operative Banks in Germany.

409. It will be noted that unwise locking up of funds in mortgage and similar securities was one of the main causes of the above failures of Central Co-operative Banks in Germany. A further cause is found in the careless disregard of the necessity for systematic and regular inspection, and for audit of the strictest kind,* a subject which we deal with in a separate Section of our Report. Over-reliance upon State advances has been put forward in some quarters as a contributory cause of the failure, but we can find no evidence of this. The Director of the new Bank, Herr Mager, in a recent article states:—"To describe the Darmstadt fiasco as a collapse of State-approved co-operation is unreasonable, because the Hessian co-operative movement has now received State aid for the first time, and that only in a crisis of such dimensions as is without parallel in the history of rural co-operation in Germany." But he rightly deprecates too exclusive a reliance upon the State advances thus found necessary.†

See paras. 599-651

The situation in Hesse was further complicated by the failure of local Credit Societies (affiliated to the Central Bank), failures due to similar disregard of rules, as in the acceptance

See paras. 430-1.

* "Violation of legal and statutory provisions, neglect of business and co-operative principles, over-estimation of the powers inherent in co-operation, and an over indulgent attitude in rectifying administrative errors (they will not remain unexpiated)—that, in general, was the solemn teaching to be derived from the co-operative failures of the past year. Going outside the small co-operative area prescribed in the rules, inflating the little rural village bank into a big, modern banking institute, granting excessive credit to individual debtors, making loans to non-members in violation of the law, granting real credit (especially outside the strictly limited home district) upon houses and industrial enterprises in towns, lack of knowledge, complete break-down and neglect of the administrative machinery, a too great confidence reposed in unworthy committee members and treasurers, and further, impracticable and hopeless attempts at reforming needy co-operative societies, direct or indirect tying up of societies' funds in insecure investments and industrial undertakings, unwise cumulation of offices, excessive negligence as regards indifferent or unwilling societies in the matter of rectifying errors; these and similar causes were found to have been at the back of the painful losses sustained in certain cases during the year that is gone." (Extract from address of Dr. Cennes, of Darmstadt, at Annual Congress of Co-operative Societies; reported in *Genossenschaftspresse*, of 30 July, 1913.)

† *Genossenschaftspresse*, 15th January, 1914.

of too many deposits and from too wide an area, the granting of large advances to private individuals, the investing of surplus funds in unprofitable mortgage and other speculative securities, and the lack of proper supervision in the carrying on of the business of the Societies.

The above considerations are admittedly not an argument against Central Banks *per se*; but we think they very strongly corroborate our view that the greatest possible care and highly skilled banking management are needed for the successful carrying on of a Central Co-operative Bank dealing with the surplus funds of Credit Societies, and that the establishment of any such institution in Ireland at the present stage of the movement would be both an unnecessary and a possibly risky step to take.

Small Central Banks of little service.

410. In speaking on "Credit and Industrial Co-operation" at the Eighth Congress of the International Co-operative Alliance held at Hamburg in September, 1910, Herr Korthaus, of Berlin, Director of the Principal Union of German Industrial Co-operative Societies, dwelt upon the perils run in the formation of Central Banks, and emphasised the fact that such Banks were only useful when the movement had made considerable progress. In view of the relevance of the opinion of this competent authority to the problem now under consideration, we quote his words in full:—

"The idea of central societies is much opposed in Germany. On the other hand, it cannot be denied that many central societies—especially those which are affiliated to the Prussian Central Co-operative Bank—afford valuable aid to their affiliated members. If the assertion that central societies could make no losses was formerly frequently made, these fairy tales are no longer circulated nowadays. Facts have taught the greatest optimists that risks are run by the central bank, as by every other credit business, which are naturally increased when the borrower resides, as he usually does, at a considerable distance from the lender. Experience has also shown that central banks are only really serviceable when the organisation has attained some considerable extent. Small central banks are useless, and should a society be in straits, such a bank can only help in a very modest way."*

Special conditions which led to the creation of Continental Central Co-operative Banks.

411. The differences in the conditions existing in the United Kingdom and on the Continent at the time when Co-operative Credit Institutions were first created, have been succinctly set forth by Mr. Wolff, who, referring to the conversion of some Continental Co-operative Banks into Joint Stock Banks, writes:—"In this country we have absolutely no similar encroachments by co-operation upon other banking business to apprehend, because, unlike Germany and Italy at the time when Co-operative banking began, our country is certainly sufficiently provided with ordinary business Banks; and a Co-operative Bank attempting to edge its way in among them would no doubt find its work cut out for it. This circumstance, indeed, explains a good deal in the different degrees of progress of the co-operative banking movement severally in Great Britain and on the Continent. On the Continent co-operative banks came on the scene when banking institutions of other kinds were few, and banks of some kind were very badly wanted."†

ORIGIN OF THE PRUSSIAN CENTRAL STATE CO-OPERATIVE BANK.

412. The story of the famous Prussian State Central Co-operative Bank is instructive, and proves that much can be gained by well-organised State action in the sphere of rural credit. This institution has very materially contributed to the remarkable recent developments of agricultural credit in Prussia; but the economic conditions which existed at the time of its foundation were very different from those now obtaining in Ireland.

The following facts are based upon a Memorandum, issued by the Bank in 1906,‡ descriptive of the principles and history of the institution during the ten years since its foundation in 1895. The profits of German agriculture had been depressed by the opening up of new foreign territories of great fertility, the development of transport, the heavier cost of production through increased wages and taxation, and the general advance in the cost of living. Smaller agriculturists, though requiring increased and cheaper capital, were not in a position to obtain it, and generally had recourse to mortgaging to secure funds even for temporary purposes. From every district in Prussia complaints were received of the usury practised upon small farmers in transactions of all sorts.

"Careful investigations throughout Germany proved that, through the absence of proper credit sources, temporary and quite insignificant financial embarrassment often caused the complete ruin of a farmer, and that in the recent decades a large number of

* Report of Eighth Congress of International Co-operative Alliance, p. 124.

† Co-operative Banking, p. 284.

‡ See Report on Agricultural Credit and Co-operation in Germany, pp. 274-5.

medium and small land owners had thus lost their properties. . . . In spite of the success of Raiffeisen and Schulze-Delitzsch and the tireless activity of the enthusiastic promoters of co-operation, the credit Societies were far from meeting the general needs. Their number was not great (there were 3,040 rural credit Societies in the German Empire on July 1, 1893), their operations spread only over small areas, and the co-operative idea affected only local and restricted circles. Professional banking institutions were not familiar with the principles of co-operative credit, and, therefore, not ready to extend credit to the Societies. Individual co-operative societies, with few exceptions, found the money market closed to them ; and a regular adjustment of money supply and demand amongst their members with the money supply and demand of other producing classes was impossible. As a result, the societies only obtained credit at a higher rate than should have been necessary."

Circumstances leading to demand of German Co-operative movement for State intervention.

413. The Central Co-operative Banks which were already in existence had not achieved the success hoped for, "their efforts did not succeed in providing credit in suitable forms, in adequate amount, and at a low rate of interest to all societies without exception." Also the local Co-operative Societies had not at the time "accumulated any considerable surplus deposits, and required a source from which they could borrow money rather than a centre for deposit. . . . The large private banks showed no eagerness to undertake the small and rather unusual kind of business that rural societies offer and want done at low rates. . . . The principle of co-operative credit, based on collective and individual liability, with only small share and reserve capital as visible assets, had not as yet become familiar in the banking world, nor been recognised as supplying a solid credit foundation."* Under these circumstances, State intervention was frequently demanded, especially at a great Agrarian Conference in 1894. In the following year the Government passed legislation creating the new State Central Bank, and supplying it with share capital.

See paras. 589-591.

We shall have occasion again to refer to the important services of this State Bank in the development of rural credit in Germany, and to the divergent attitudes of the various Central Co-operative organisations towards it. We wish here merely to indicate the exceptional circumstances which called it into being—circumstances which, it will be seen, differed considerably from those of present-day Ireland. Especially noteworthy is the fact that in Germany at that time Co-operative Credit Societies were practically unable to obtain credit from the ordinary banking institutions, save at high rates ; whereas in Ireland, as we have seen, the Joint Stock Banks are willing to grant overdrafts to Credit Societies, usually at the low rate of 4 per cent.

See paras. 90, 438-445.

The circumstances attending the establishment of the Central Bank of Polish Co-operative Societies in Prussia also reveal the difference in the then general banking conditions of that country as compared with those of Ireland at the present time. Dr. Kusztelan, the Director of the Central Bank referred to, has pointed out that the unwillingness of the ordinary banks to give credit to co-operative banks had in the early days involved the latter, in their isolated position, in many difficulties connected with the balancing of incoming deposits and outgoing loans, and with the provision of remunerative investments for surplus funds. This attitude of the ordinary banks led to the demand for a special financial central institution for the Credit Societies, which was accordingly established in 1886.†

It would be easily possible, if space permitted, to multiply similar illustrations showing that Central Banks on the Continent have been naturally evolved from economic conditions which do not exist in our country at the present time. The whole question was exhaustively discussed at the International Co-operative Congress of 1904 at Budapest, the Report of which contains much useful information as to these central institutions.

Progress made in Italy without Central Co-operative Banks.

414. So much emphasis is often laid upon the extremely important rôle played by the Central Co-operative Banks of Germany in the development of the rural credit of that country that there is a tendency to forget that almost equally striking progress has been made in some other countries without the establishment of Central Banks. Italy has a record of most remarkable success in the field of co-operative credit. The People's Banks of M. Luzzatti, the Rural Banks of Dr. Wollemborg, and the "Catholic" Banks started by Don Cerutti, have wrought wonders in the economic regeneration of agricultural

* *Report on Agricultural Credit and Co-operation in Germany*, pp. 274-6.

† *Report of Sixth Congress of the International Co-operative Alliance, held at Budapest, 1904*, pp. 377-8.

and industrial Italy, and have a notable record of success. In several respects Italian co-operative credit systems seem better adapted than other Continental forms to fit in with the conditions, habits, and system of business of the United Kingdom.

Yet there was, till recently, no Central Co-operative Bank to serve the local credit societies as in Germany and Austria. Even though M. Luzzatti himself advocated the creation of a Central Bank, the proposal was always defeated. One reason is that large Banks have gradually grown up (as at Milan and Cremona) which satisfactorily fulfil the functions of a Central Bank, and naturally do not wish to relinquish their business or the prestige it brings them. But the real obstacle to the proposal has been that solvent local credit societies were unwilling to unite in a common venture with some other Societies who were in a bad or doubtful financial position. The latter Societies, if admitted as shareholders, would have had an equal right in the management, and the better Societies would not risk the possible chance of having to pay for the insolvency or indebtedness of inferior ones. At the International Co-operative Congress at Budapest in 1904 the fact that Italy had shown such striking results, without the aid of Central Co-operative Banks, was emphasised as worthy of being noted by any who might be contemplating the formation of a Central Bank.*

REGIONAL BANKS IN FRANCE.

415. France presents another type of co-operative credit organisation in which there is no large Central Bank for the whole movement. Instead, some 100 Regional or District Banks have been created, to which are affiliated over 4,000 local credit Societies. The proposal for a single Central Bank was opposed by M. Méline, and others, on the ground that such Bank would be too far removed from the local Societies and from the agriculturists of the country to be in a position to know them and to deal with their credit requirements.† The Regional Banks resemble in some respects Central Banks on a limited scale; they receive advances from the State out of the funds furnished by the Bank of France; they discount the bills of their affiliated Credit Societies; and they advance loans to these Societies. This elaborate system, which possesses both merits and considerable defects, is briefly outlined in the Memorandum kindly furnished to us by M. Picard, Secretary to the Bank of France, reproduced in the Appendices,‡ and is referred to by us in the Section dealing with State Advances to Credit Societies. See paras 592-4.

Varying Types of Central Credit Organisations in other Countries.

416. The experience of Continental and other countries does not point, then, to any universal plan for dealing centrally with the funds of local Societies. In each country a method has been evolved which seems best adapted to its own particular economic and social conditions. Germany and Austria have elaborate Central Bank organisations, State-aided and otherwise. The Schulze-Delitzsch Credit Societies of Germany have now no Central Co-operative Bank but make use, as a rule, of the Dresdner Bank; while some Raiffeisen Societies, like those of the Baden Union, also utilise, as we have seen, outside Banks. France relies mainly on an extensive system of Regional Banks to act as conduits between the local Societies and the Bank of France. Italy, one of the most fruitful fields of co-operative credit, has had, till recently, no Central Bank, but uses Banks such as those of Milan and Cremona. India possesses over 30 Central Credit Societies of a special type and of very varying constitution, to which Joint Stock Banks advance funds.

Amidst all this diversity of practice one fact stands out clearly, *i.e.*, that in none of the countries where Central Banks exist was there at the establishment of these institutions anything approaching the widespread system of joint-stock branch Banks which now operate in the rural districts of Ireland, and which assist Credit Societies by supplying overdrafts at low rates of interest.

Risk of Dividend-seeking by a Central Bank.

417. A temptation to which a Central Bank is peculiarly exposed is that of "dividend-hunting," which tends almost inevitably to the making of business in order that profits may be earned from which to pay interest on the share capital. The Bank is tempted to encourage both the formation of Credit Societies and the extension of credit transactions

* An account of the proposed Central Bank for the Wollemborg Banks in Italy will be found in the *Landwirtschaftliches Genossenschaftsblatt* for 15th July, 1913; and of the National Credit Institute for Co-operation, Italy, in the *Bulletin of Economic and Social Intelligence* (Rome), December, 1913, pp. 28-32.

† *Le Crédit Agricole en France*, M. Sagnier, pp. 56-7.

‡ See Appendix 4 to Minutes of Evidence.

See paras. 447-8

by such Societies, without sufficient regard to needful precautions. Not only is this a risky practice in itself, but, as we shall show later, it is detrimental to the true interests of the local Societies, who should be taught to rely as far as possible on the savings of depositors as their main source of capital.

Rates of Interest in Central Co-operative Banks.

Para. 437

418. Some supporters of Co-operative Central Bank schemes lose sight at times of the fact that even if a Central Bank were to be established, it would not be in a position to allow more than a comparatively small rate of interest on the funds sent to it from Credit Societies, seeing that one of its main functions is to re-lend these sums at a low rate to other Societies in need of capital. It is as essential for the Central Bank as for a local Credit Society that there should be a reasonable working margin between the rates at which it borrows and re-lends its funds. The Central Bank established in 1908 under the A.O.S., for England and Wales allows three per cent. on the deposits of Credit Societies, *i.e.*, the same rate as the Societies themselves are supposed to pay to depositors. It advances money to the Societies at four per cent, the same rate as that charged by the Irish Joint Stock Banks on overdrafts of Credit Societies.

A study of the comprehensive Table included in Mr. Cahill's Report* giving the rates of interest charged on loans, and allowed on deposits, by each of the German Central Banks, shows that these rates run, as a rule, from $3\frac{1}{2}$ to 4 per cent. for deposits (4 per cent. being usual when deposits are left at six months notice and over); while $4\frac{1}{4}$ to 5 per cent. is charged on loans. Practically all the Central Banks also charge a small commission yearly or half-yearly on the total business done. The average rates at the end of the year 1911 were 3.67 per cent. on deposits, and 4.57 per cent. on loans. It should be added that the German Imperial Bank rate of interest (corresponding to the Bank of England rate in this country) was in the same year 4.4 per cent. The terms offered to Societies by the non-co-operative Mannheim Central Bank—4 per cent. on deposits, and $4\frac{1}{4}$ per cent. on loans (with $\frac{1}{10}$ per cent. commission),—seem to surpass in steadiness and cheapness the facilities afforded by the Central Co-operative Banks.

See para. 397-8.

We have quoted the evidence of witnesses representing the I.A.O.S. showing that in their opinion a Central Bank would not be able to do any better for Credit Societies in respect of interest charged than the Irish Joint Stock Banks now do.

German methods of estimating the Credit to be given by Central Banks to Societies.

419. A chief difficulty connected with the proper working of a Central Bank is that it must have some reliable means of calculating the amount of credit which can safely be granted to each of the affiliated Societies. This is always one of the most troublesome tasks confronting the managers of such central institutions. In Germany the credit allowed to a Society is based, in most cases, upon the number of shares held in the Central Bank by the Society. The Raiffeisen Central Loan Bank and other Central Banks have adopted a plan which seems to work satisfactorily, but which would meet with a different reception, we believe, in this country, even if the various legal and other conditions necessary for its being put into operation existed. The Raiffeisen Central Bank acts as follows :—

“There are at present twelve provincial branches of this Bank, and its shareholding societies in each branch district must send in an annual return showing the collective assets of the members, as attested by the Committees of Management and the Boards of Supervision. In Prussia and in other States where the supplementary property tax is in vogue, the amount paid by each of the members must be stated, while elsewhere (*e.g.*, in Bavaria and in Alsace-Lorraine) a valuation of the property of each member of a society, as estimated by the managers of the society must be furnished. With these particulars and other supplementary information of a general kind as basis, a maximum limit of credit is allotted. In States in which the supplementary property tax is not payable, and exact data are not therefore to hand, a normal credit of 5 per cent. of the assets of members is granted, and a super-normal credit of 10 per cent., while for societies whose members pay the supplementary tax a normal credit of 10 per cent., and a super-normal credit of 15 per cent. is accorded. Each branch bank is authorised to advance the normal credit, but the issue of a super-normal credit requires the authorisation of the central office. Credit in excess of the regular super-normal credit can only be granted on the authority of the Council of Supervision of the Central Bank.

“The societies affiliated to central banks must undertake not to maintain banking relations with any other banking institutions either for the deposit of money or for the obtaining of credit. For the purchase of stocks and shares they are also expected to make use of the services of their central bank.”†

The Raiffeisen Central Bank, it should be added, is much the largest of these institutions, having almost 4,500 Credit Societies affiliated to it.

* *Report on Agricultural Credit and Co-operation in Germany*, p. 141.

† *Ibid.*, p. 139.

The Bavarian Central Bank (the second largest in respect of membership, having almost 2,300 affiliated Credit Societies) calculates in the following manner the sum it may advance with safety :—"The actual amount of credit allotted to a society is based upon the taxation paid by its members. The value of the land and buildings, as well as the income or capital of members, is calculated from the assessments made for purposes of taxation, and credit is ordinarily allowed up to 5 per cent. of this estimate. If credit beyond this percentage is required the Committee and Board of Supervision of the society must furnish a list of its members, setting forth after each name the number of acres held or owned, the estimated selling value of the property, any charges against it, and other relevant details as to means."*

The minute inquiries conducted by German Central Banks would be difficult in Ireland.

420. The fact that such inquisitorial proceedings are considered essential as a safeguard by some of the most important Central Banks of Germany indicates the difficulties often connected with the management of these institutions. It was suggested to us that in Ireland a Central Bank might ascertain through the Land Commission the annuities paid by the members of a Credit Society in respect of their holdings, or the valuation 4899. of their farms, and might then advance to the Society a credit equivalent to a proportion of the total amount thus ascertained. This might, perhaps, be the most feasible plan under the circumstances. Supporters of a Central Bank scheme for Ireland do not, in our opinion, always fully realise the many difficulties which have had to be faced and overcome before such Banks elsewhere have been in a position to win the confidence of their affiliated Societies and of the public.

We do not deny the possibility that in Ireland a Central Bank, under able expert management, and organised upon a sound and wide basis of Credit Societies, would in process of time surmount the special difficulties to which reference has been made. But the responsibility of establishing and running such an institution, even on a comparatively modest scale, is obviously not one to be lightly undertaken, in view of the lessons taught by the experience of other countries—lessons which are, as we have seen, supported by the advice of some of the most competent authorities on the subject.

PROBLEMS OF A CENTRAL CLEARING HOUSE.

421. The suggestion has been made to your Committee that a central credit institution for Ireland could act merely as a clearing house for the various local Societies, and thus avoid involving itself in the more difficult and complex transactions of banking. We believe that any such attempted limitation would lead to numerous difficulties and would prove unworkable in practice, and that ultimately transformation into a Central Bank, performing all the functions of a regular Bank, would become inevitable.

A Central Bank cannot as a rule limit its dealings to Credit Societies.

422. This aspect of the problem of rural credit organisation has been well put by Herr F. Thorwart, a member of the Board of the Dresdner Bank :—"Credit Societies' business alone, so the founders of the (German Co-operative Societies) Bank clearly discerned from the outset, could not suffice to keep the Bank prosperous or even equal to the fulfilment of the engagements which it had undertaken towards Societies, one of which was, never to fail them in respect of legitimate claims for credit, never to want the means of serving them and serving them cheaply. Societies' business must of course be done at a low rate of commission, if it was to be a help. Accordingly much profit could not be looked for from it. Therefore, to be able to pay its way, the Bank must lay itself out for other business, such as all banks transact."†

Dr. Kusztelan, Director of the Central Bank of Polish Co-operative Societies in Prussia, in speaking of the establishment of that institution in 1886, says :—

"Its directors soon found that if they were to accomplish what they had undertaken, they must, in the first instance, proceed with extreme economy, and in the second, they could not, if their institution were to remain solvent, in view of the smallness of the margin allowed, limit their transactions to the scarcely profitable dealings with co-operative societies only, but must launch out into operations in the outside market as well, so as to earn profits sufficient to enable them to deal on the preferential terms desired with their own proper constituents."‡

* *Report on Agricultural Credit and Co-operation in Germany*, p. 148.

† *Report of the Sixth Congress of the International Co-operative Alliance held at Budapest, September, 1904*, pp. 332-3.

‡ *Ibid*, pp. 379-380.

The benefits and difficulties of a "balancing" institution have been clearly stated by Mr. H. W. Wolff who, after referring to the somewhat exceptional cases of the Durand Federation in France and the Central Bank of the Belgian "Boerenbond," where the balancing of deposits and loans appears to be fairly successfully accomplished, points out that usually deposits increase more rapidly than the borrowing requirements of the Societies. He adds:—

"There are other reasons which make mere balancing insufficient. To begin with, the loan of mere temporary overflow funds of necessity provide the borrowing banks with a most insecure possession. The lending bank cannot, of course, tell at the outset for how long it will be able to spare its money. How then is the borrowing bank to insure to its own borrowers the use of that money for any definite time? But, in addition, the cash thus made available will not suffice, at any rate while co-operative banking is a growing and daily expanding force, in which demands for credit grow out of all proportion to the supply of deposits. Once it has reached its ultimate limit, the movement may no doubt become self-sustaining. It is not yet so at present.

"People were accordingly compelled to look further, and they naturally looked in the direction of a Central Bank, so contrived as to serve, not indeed as an ultimate source of funds in itself, a self-sufficing reservoir, but rather as a convenient conduit pipe, to facilitate the passage of funds to and from the capitalist market. That is plainly designed as its task and its object. It is, so to speak, to be the representative and agent of the local banks in the money market, and there to make their security understood and accepted."*

Overdraft arrangements with Banks more satisfactory than any attempted "balancing" of deposits.

423. After the most careful consideration of the evidence offered to us, and of the lessons taught by central credit institutions in other countries, we are convinced that it would not be for long feasible to attempt to confine the operations of a central organisation to the mere balancing of excesses and deficiencies in deposits. The problems which a local Credit Society has to face when surplus deposits are offered to it, or when it has insufficient funds to meet the demand for loans, would inevitably be repeated on a larger scale in the case of such Central Institution. In the course of time it would find itself either with an excess of deposits on hand for which there was no demand from other Credit Societies, or else it would find that the surplus deposits received from Societies were not adequate to the requirements of other Societies in need of capital. In the first case the central body would be forced to seek a safe source of temporary investment for its surplus funds, while in the second event it would, in the interests of the local Societies and of the movement as a whole, find it essential to borrow additional funds from outside sources; in both cases undertaking the functions of an ordinary commercial Bank.

The management could, of course, refuse to accept deposits from Societies, if not required, or could lower the rate of interest on deposits received. But even then the position would be in many ways most unsatisfactory. The central body could not, even if it succeeded in balancing excesses and deficiencies in deposits, guarantee to a borrowing Society the use of the loan for any fixed period of time, save by overdraft arrangements with another banking institution. Again if the demand for loans exceeded the inflow of deposits, the central body would be unable to assist the Societies applying for capital. The present system of overdrafts to the local Societies from the ordinary joint stock banks is, in our opinion, in every way more advantageous to the movement than any scheme for a central body whose functions would be confined to the attempted balancing of demand and supply in relation to the deposits of the local Credit Societies throughout the country.

Para. 438.

Recommendation of Select Committee of House of Lords, 1910.

424. The recommendation of the Select Committee of the House of Lords on the Thrift and Credit Banks Bill, 1910, in regard to the question of a Central Bank for Credit Societies was as follows:—

"Power should be given to enable groups of Thrift and Credit Banks to combine for the purpose of forming a Central Bank. The number of Banks combining for this purpose should not be less than seven. They should each be entitled to hold one or more shares in the Central Bank, and should be entitled to deposit in it their surplus funds. The Central Bank should be registered under the Companies Acts, 1862 to 1890, with limited liability. Its object should be to receive deposits and to distribute the money by way of loan among the combining Thrift and Credit Banks according to their requirements, and generally to assist the working and development of the said Banks.

"Thrift and Credit Banks should be empowered to deposit their surplus funds in a local Joint Stock Bank if they so desire."

From what we have said, it will be sufficiently clear that in our view the time has not arrived to form a Central Bank in Ireland, but there could be no objection to the proposed

* *Co-operative Banking* pp. 155-6.

power being given—a power which could be put into operation should the occasion arise.

The last sentence of the above recommendation of the House of Lords' Committee involves an important point to which we refer elsewhere.

Paras. 443-4.

Scheme for District Banks proposed by Captain Bryan.

425. Captain Loftus A. Bryan, who has for a number of years been closely connected with the co-operative movement, placed before your Committee a scheme providing for the establishment of District and Central Banks. He proposed that a District Bank should be situated in a market town, or other suitable centre, and that the clerical work of the local Credit Societies should, as far as possible, be carried out by a paid official attached to the District Bank or Federation. In the absence of a Central Bank, the Credit Societies would as a temporary measure draw capital from the District Bank, which would also be responsible for the inspection and audit of the Societies within its area, it being possible thus to carry out inspection more cheaply than through a central body for the whole country. In Captain Bryan's opinion, the expenses of the District Banks could be largely met by a combination of co-operative credit and co-operative trading, while Government subsidies might also be given. In some cases the District Banks would be "book" banks rather than "cash" banks. The witness expressed himself as being in favour of local Societies taking all the deposits they can get. 18056-9.

The suggested plan of having the clerical work of local Credit Societies carried out through District Banks has been in some cases adopted, as in France, but apparently not always with very satisfactory results. A French authority in dealing with this subject says:—"Certain local credit banks find it convenient to leave their accounts to the care of the district credit bank with which they are affiliated. We consider this practice defective. The local Banks, which are self-governing, should carry their sense of responsibility to the extent of keeping their own accounts. It is, moreover, impossible that their administration should be really serious and comprehend its duties if they do not know for themselves how they stand as far as their receipts are concerned, their expenses, their credit, and their debts, their profits and their losses, their general expenses, and their reserve funds."*

The more the local feeling of entire responsibility for the working of a Credit Society, including the proper keeping of its books, is developed, in our opinion, the better—subject to careful audit and regular inspection.

THE PROBLEM OF SURPLUS DEPOSITS IN CREDIT SOCIETIES.

426. The difficult question of a Central Credit Institution is closely bound up with the other problem of the acceptance or refusal of surplus deposits by Credit Societies, *i.e.*, deposits in excess of the borrowing requirements of the members. In dealing with Irish Savings Banks we have emphasised the desirability of attracting to the Societies a portion of the small savings of rural districts which now find their way to the Post Office Savings Bank, and are transferred to England for investment in Government securities. Such savings could, we believe, be in most parishes utilised very beneficially for reproductive purposes in the agricultural industry, while at the same time earning, say, $3\frac{1}{3}$ per cent., instead of $2\frac{1}{2}$ per cent., for the depositors. Further, the educational and social influences which are brought into operation through the agency of a Credit Society are almost entirely absent from the transactions of the Post Office Savings Bank. There are many grave objections, therefore, to the placing of too restricted a limitation on the reception of deposits by Credit Societies, while there are, on the other hand, several difficulties involved in the acceptance of surplus deposits. See para. 389. See paras. 112-4.

Regulations as to limitation of Deposits in German Credit Societies.

427. In other countries, as we have seen, one of the most important and beneficial of the functions of rural Credit Societies is the stimulation of habits of thrift. We have given figures showing the exceedingly large amounts held in the form of deposits by rural Credit Societies in Germany; and we have also referred to the legal provision in Germany, under which the total amount of savings deposits that may be accepted, as well as of the loans that may be granted, by a Credit Society must be annually fixed by the General Meeting of the members. See paras. 359-63.

The model articles of association for Credit Societies with unlimited liability, issued by the Raiffeisen Federation in 1910,† provide that the meeting of members may pass

* Article on *Agricultural Credit* by M. Maurice Dufourmantelle, printed at Washington as a Senate Document (No. 572), p. 26.

† *Report on Agricultural Credit and Co-operation in Germany, Appendices*, p. 102.

resolutions in regard to "the fixing of the total amount which the loans accepted by the Society and the savings deposits may not exceed, as well as of the smallest sum to be accepted as savings deposits." A similar provision is included in the model articles of association issued in 1910 by the Imperial Federation of Agricultural Co-operative Societies in Germany for Rural Savings and Loan Banks.* In the "Service Regulations" issued by this Federation,† dealing with the business regulations of Savings and Loan Banks, it is provided that amounts from 5s. to £30 shall be accepted as savings deposits, and that amounts above £30 "may be accepted by the Committee under special terms of withdrawal corresponding with the course of business and the conditions prevailing from time to time, but not running for less than three months."

Unlikelihood of large surplus deposits in Irish Credit Societies.

428. We consider that even a large augmentation of the amount of deposits received by Credit Societies in Ireland would not appreciably affect the Joint Stock Bank deposits, which are, as a rule, not placed in these Banks by small farmers of the class for whose needs Credit Societies are more especially adapted. Any substantial addition to the deposits of Societies would probably take place mainly through the transfer of deposits from the Post Office Savings Bank, and through increased habits of thrift. Most of the original deposits in the Ballyragget Credit Society consisted, we were told, of sums previously kept uninvested in the houses of the people.

Although no State Post Office Savings Banks exist in Germany, the competition of the public Savings Banks, which usually possess the guarantee of the district or town in which they are established, is, as we have shown, very much felt by Credit Societies. Similarly, it seems probable that the far-reaching competition in Ireland of the Post Office Savings Bank, with its absolute State guarantee and conditions of comparative secrecy, will for at least some time to come render it unlikely that, save in exceptional cases, more deposits will be offered to Credit Societies than they can make use of in loans. The details which we give elsewhere in our Report reveal the comparatively small extent to which the Irish Credit Societies have hitherto succeeded in attracting deposits. Hence the problem of surplus deposits is not likely to become acute in the near future—a further reason, in our opinion, for not establishing any Central Bank in Ireland at the present stage of the movement.

Legal opinion that Deposits of Credit Societies under Friendly Societies Act must not exceed two-thirds of the Loans to Members.

429. A restriction upon the reception of deposits by Credit Societies which has, we think, been largely lost sight of, and which is not referred to in the I.A.O.S. Rules dealing with deposits, is that contained in the *Friendly Societies Act* of 1896, laying down that "a Society shall not hold at any one time on deposit from its members any money beyond the amount fixed by the rules, and the amount so fixed shall not exceed two-thirds of the total sums owing to the Society by the members who have borrowed from the loan fund."‡

We are legally advised that, although the *Societies' Borrowing Powers Act* enabled Societies to borrow from non-members, the above restriction as to the amount to be held on deposit applies also to money thus borrowed. Consequently it would seem that many Credit Societies are now acting illegally in accepting deposits beyond this two-thirds limit. Obviously no question of surplus deposits can arise if the provisions of the Act be adhered to. No such restriction is found in the *Industrial and Provident Societies Act*, under which limited liability Societies are formed. The recommendations contained in this portion of our Report are made on the assumption that no legal limitation upon the amount of deposits received by a Credit Society is allowed to remain.

The Rules for Credit Societies under the *Friendly Societies Acts* should contain a statement of the specific legal limitation above referred to. We may add that this restriction merely furnishes yet another illustration of the unsuitability of this Act for the purposes of rural credit organisations.

Failure of Local Loan and Savings Banks in the Grand Duchy of Hesse.

430. The risks run by a small Credit Society in accepting surplus deposits far beyond the borrowing requirements of its members are well exemplified in the recent disastrous failures of Credit Societies in the Grand Duchy of Hesse.

It appears that the peasants and tradesmen of Nieder-Modau, a village near Darmstadt, founded a Loan and Savings Bank on an unlimited liability basis. From the beginning

*Report on Agricultural Credit and Co-operation in Germany, Appendices, p. 113.

† Ibid., p. 126.

‡ See Section 46 (d) of 59 & 60 Vict., c. 25.

Paras. 113-4.

J. Brett, 690.

Paras. 121-2.

Paras. 366-70.

See para. 371.

they broke the important rule that such Societies should operate in a limited sphere, for by promising high interest they attracted deposits from all over the province, and even from other provinces: so that no less than £150,000 was placed with them, an amount far in excess of the members' borrowing requirements. This led the Society to do business with outsiders, granting too large credit, and risking its funds in financial schemes outside the limits of the village. Thus the savings were invested in urban real estate and building lots of uncertain value, in second and third mortgages, and similar risky investments. The Society's cashier was unsuited for the post, while the Board of Management and the Council of Supervision seem to have neglected their duties, and to have left the working of the Society almost solely in his hands (a very frequent defect in Co-operative Credit Societies and Loan Fund Societies in Ireland). Finally this officer was sentenced to imprisonment for forgery.

The Co-operative Federation and the Central Bank were fully aware of the maladministration of the Society and tried to avert disaster by reorganisation of the Board of Management, by obliging the Board and the Council of Supervision to furnish security, and by similar steps. But in December, 1911, the Society had to be declared insolvent, the assets being £45,000 and the liabilities £125,000, leaving the heavy deficit of £80,000. Some of the members had practically no assets whatever, while others had only about £100. Only one of the members had £10,000. The German law, as we have shown, compels a deficit to be made up by the members in equal proportions, but a strict application of this law would have meant entire destitution for the members, and great losses to the depositors; so the bankruptcy Commissioner treated this £10,000 of one member as a loan granted to meet the case, and distributed it among all the members. To relieve the situation a Society was formed under the management of the Darmstadt People's Bank, to substitute itself for the creditors and especially the depositors, and take over their claims. This step has obviated the forced sale of houses and land, for were it not that the new Society is the principal creditor, the Commissioner would have to seize all the assets of the members and proceed against the debtors without any consideration. See para 306.

Disaster due to excessive deposits, risky investments, and defective supervision.

431. That this unfortunate case does not stand alone is seen from the following paragraph of Dr. Grabein's article:—"The case of Nieder-Modau is enough in itself to cause anxiety; what makes it more serious is that unfortunately it is not isolated. If the ruin of the Nieder-Modau Bank was due to unadvisable extension of its sphere of action, the excessive amount of deposits attracted to it, risky undertakings, careless management and insufficient supervision, unfortunately other banks have followed on the same lines. To statisticians the occurrence of phenomena of this kind, amongst a total number of more than 17,000 rural loan and savings banks may be explicable. But this is a rather poor consolation, and we must in any case say here that all co-operative organisations must take energetic action to prevent the repetition of such errors in the future. Unhappily there is still a certain number of banks in the Grand Duchy of Hesse which may be expected to suffer extraordinarily heavy losses, or have already suffered such losses, due to causes similar to those that have ruined the Nieder-Modau Bank. Thus we may now speak of a crisis in the agricultural co-operative societies of the Grand Duchy of Hesse. What has contributed to render it appreciably more acute is the failure of central financial institutes like the Darmstadt Agricultural Co-operative Society, the Darmstadt Administration and Sale Society, the National Co-operative Bank and the Agricultural Credit Bank of Frankfort-on-Main."* Paras. 406-9.

Your Committee have thought it desirable to refer in some detail to this serious situation in the co-operative credit movement in Germany,† because of the important lessons which it teaches as to the imperative limitations upon the operations of local Credit Societies, if the risk of serious loss to members and depositors is to be avoided. Many factors, as indicated by Dr. Grabein, combined to bring about the collapse of the Nieder-Modau Society—undue extension of area of operations, unwise speculations, careless management, and defective supervision; but one of the main causes, as we have seen, was the reception by the Society of surplus deposits far beyond the local requirements of borrowers.

* See Article "Causes and Effects of the Recent Want of Success in the Department of Co-operative Agricultural Credit in Germany and the Lessons to be learned from it," by Dr. Grabein, of Berlin. Bulletin of Economic and Social Intelligence (Rome), December, 1913, pp. 2-4.

† We note also that a few months ago the Charlottenburg Credit Association was declared bankrupt, with an estimated deficit of over £62,000, owing mainly to the granting of credit to doubtful clients. *Deutsche Tages-Zeitung*, (16 Feby., 1914).

Difficulties caused by Surplus Deposits in the Ballyragget Credit Society.

671-886:

432. The case of the Credit Society at Ballyragget, County Kilkenny, founded in the year 1901, was frequently brought under our notice by witnesses, owing to its exceptional success in attracting deposits. In 1912 it held deposits to the extent of £1,200, this amount being exceeded in the case of only four other Credit Societies in Ireland. Full details of its history and working were furnished to us by its very competent Secretary, Mr. John Brett, to whose personality, as well as to the efforts of the Very Rev. Dean Barry, much of the Society's success has been due. The Society at first paid $3\frac{1}{2}$ per cent. on deposits, but found it necessary to reduce this rate to 3 per cent., owing to the number of deposits received.

See para. 387.

Mr. Brett—in our opinion very wisely—expressed preference for small and new deposits, rather than large standing deposits. The average amount of individual deposits in the Society was, he informed us, £60. This Society exemplifies in a striking way the difficulties which arise from the acceptance of deposits in excess of the local demand for loans, unless there be some organisation to which such surplus can be profitably transferred. In this case the excess deposits amounted to the large sum of £300, of which £200 was placed in the Post Office Savings Bank, the greater portion of this being invested in Consols. In addition there was a sum of £100 in a Joint Stock Bank and in the shape of cash in hand. When asked whether he was of opinion that the soundest plan would be to accept deposits only to the extent to which they were required for loans in their locality, Mr. Brett replied: "That is my opinion, and I refused lots of deposits within the last six years." Delicate banking questions as to the wise investment of a Society's surplus funds cannot be properly dealt with by the average Committees of rural Credit Societies, who have not the requisite business knowledge or training; nor, again, are there many Secretaries who are possessed of Mr. Brett's business ability and energy.

The Ballyragget Society, we may add, furnishes a good illustration of the difficulty in attracting deposits till confidence is fully established. In the first year no deposits were obtainable, although $3\frac{1}{2}$ per cent. in interest was offered, and in the second year only £10 was deposited—which was withdrawn after two months. By the third year, £94 was obtained, while in 1912 the deposits amounted to £1,200.

Mr. A. Swain, who is in charge of the audit department of the I.A.O.S., and has had therefore considerable experience of the financial working of Credit Societies, expressed himself as strongly against the principle of surplus deposits being accepted. The following is an extract from his evidence :—

4667-78.

Q. "Don't you think in a case like that (the Ballyragget Credit Society) where the deposits are larger than are needed, it would be well to limit the amount of deposits? A. They must limit the deposits, there is no alternative. The time came last year when they had to stop taking deposits. The personality of Mr. Brett attracted these deposits largely to the Ballyraggett bank. The people have absolute confidence in him.

Q. "Do you approve of a Credit Society taking more deposits than it can lend out? A. No.

Q. "That is your idea of what a sound bank would be—a bank getting enough money from local deposits to be able to transact most of its business, and an overdraft to supplement that for its special necessities? A. Certainly."

1912.

Mr. George Russell informed us that when acting as organiser of Credit Societies his general advice was "to raise money by local deposit up to an extent that they found they could use the money continually, and to receive no more deposits but to get an overdraft and use it for exceptional necessities—pressure upon loans or if they had to pay back deposits."

CENTRAL BANK NOT RECOMMENDED AT PRESENT STAGE OF THE MOVEMENT IN
IRELAND.

433. From the quotations which we have given from the evidence—and these represent only a portion of the views expressed to us by witnesses on this subject—it will be seen that there was much diversity of opinion as to the advisability or otherwise of accepting surplus deposits and of establishing a Central Bank or Credit Institution in Ireland. On the question of the necessity of some central body to perform the duties of supervising and inspecting the local Societies there was general agreement, the desirability of such central supervision being fully recognised. We are now dealing, however, solely with the proposal that a central body should be established in Ireland for the purpose of acting either (a) as a simple Clearing House for surplus deposits, or (b) as a fully developed Central

Bank accepting deposits from Credit Societies and possibly also from individual depositors. At our Inquiry some witnesses stated that unless there was a financial tie between the central body and the local Credit Societies any power of control given to the former would be ineffectual, as there would be no real means of imposing its will upon the Societies.

After a most careful consideration of this branch of the subject in all its aspects, your Committee cannot recommend the establishment of a Central Co-operative Bank in Ireland at the present stage of the movement. We believe that for some time the soundest policy for a Credit Society will be to accept in deposits only the amount which is found, on the average, to suffice for loans required by its members; and at the same time to obtain a potential Bank overdraft, which would enable the Society to repay at call unexpected withdrawals of deposits. Several of the most successful Societies in Ireland are at present operating on this principle of supplying their capital mainly from deposits, in conjunction with a potential Bank overdraft, while steadily building up a reserve fund out of the small annual profits accruing. Several witnesses possessing much experience and knowledge of Irish conditions have expressed themselves as in agreement with this view; but we have given full weight on the other hand to the expressions of opinion in favour of a Central Co-operative Bank, based on Continental models.

A Central Clearing House not considered feasible.

434. The *via media* proposed by some witnesses, *i.e.*, the establishment of a central "clearing house," confined to the balancing of demand and supply in deposits, would in our opinion be most unsatisfactory, and would inevitably lead in course of time, as deposits continued to accumulate, to the creation of a Central Co-operative Bank, undertaking all the functions of a Joint Stock Bank in the investment of funds and the general reception of deposits from outsiders. It would not be feasible, in our view, so to arrange that the central clearing house would constantly have in its possession approximately sufficient surplus deposits from certain Credit Societies to meet the needs of other Societies requiring further capital. It would, in fact, be much more difficult for a large central body thus to adjust the demand and supply of Societies spread all over the country than it would be for a local Society, working in a narrow area, and with personal knowledge of its individual members and their requirements, to balance approximately the deposits received and the loans made. Therefore surplus deposits would probably, after a time, become a pressing problem at the central institution as well as in the Societies, and the transformation of the central body into a regular banking institution could hardly be avoided if it was properly to fulfil its functions. The experience of other countries in this matter tells conclusively in this direction. It must also be remembered that a central body dependent for its funds solely upon the surplus deposits of Societies is not in a position, save by overdraft arrangement with some other bank, to guarantee to a borrowing Society the possession of a loan for a definite period, since other Societies may find it necessary at any time to recall their deposits from the central body. See paras. 421-3.

Central Bank and the Joint Stock Banks.

435. It has been urged that, with the establishment of a well-organised Central Bank, the necessity for potential overdrafts for local Societies with the Joint Stock Banks would cease, and that the co-operative credit movement would be in all the better position because of its complete independence of the ordinary banking institutions of the country. Your Committee believe, however, that if a Central Credit Bank were now to be established, a considerable time must elapse before it would find itself in a strong financial position, and would be itself independent of aid from the Joint Stock Banks. At present there are in the Credit Societies few surplus deposits available, and it would, in our opinion, be entirely premature to create a central institution until there was some reasonable prospect of sufficient funds being available from local excess deposits.

The supporters of a Central Bank scheme also claim that a chief object of Central Banks would be to act as an intermediary between the various Credit Societies and the Joint Stock Banks. These Banks, it is said, would be saved the trouble and inconvenience of negotiating directly with small local Societies, and of ascertaining the value of the security offered by the members, and would instead have the advantage of the aid of the central body which, being in touch with the local Societies, would take the primary responsibility for the safety of the overdrafts or loans made by the Joint Stock Banks.

There are admittedly obvious advantages in such an arrangement: but, for the various reasons given, we believe that at present a central body of this type is not called for. The circumstances in Ireland are such as to render precedents from Continental and other countries in regard to Central Banks very largely inapplicable. The number of branches See paras. 38-42.

See para. 397.

of Joint Stock Banks in Irish rural districts is, as we have seen, comparatively large, and is steadily increasing. By means of the useful system of overdrafts to Credit Societies these Banks are at present performing a very valuable service to co-operative credit, and are thus aiding indirectly the small rural classes with whom direct business would not prove profitable for the Banks. As admitted by several witnesses representing the co-operative movement, a Central Bank would not be in a position to give any better terms of interest to the Societies than are now offered by the ordinary Banks.

We desire to make it quite clear that the mere fact that a Central Bank might eventually enter into competition with, and as a result be opposed by, the Irish Joint Stock Banks would not, in our opinion, be a sufficiently valid reason for hesitating to establish such a central institution, if the real interests of the small rural classes of the country would be materially advanced thereby in a way not possible by any arrangement between the Joint Stock Banks and the Credit Societies.

"Central Co-operative Credit Society" registered by the I.A.O.S. in 1913.

436. Your Committee understand that the I.A.O.S. took steps during the progress of the Inquiry to register a Central Co-operative Credit Society. The witnesses representing the I.A.O.S. at our sittings did not, when dealing with the question of Central Credit Institutions, refer to the intention thus to establish in the immediate future a central body of this nature; the following particulars in regard to it are, therefore, based merely upon the printed Rules and Circular Letter issued by the Society.

The new Society has been registered under the *Industrial and Provident Societies Act, 1893*. In a letter issued on the 27th March, 1913, its primary object is described as being "to act as a Clearing House and a Federation through which approved agricultural banks can pool their securities and, by taking shares in the undertaking, partake of its benefits. The benefits proposed are that the approved societies can, as the Society's finances allow, borrow deposits in their corporate capacity and that societies having a surplussage of deposits can transfer them to the Society. It is also intended that societies participating in the scheme shall receive special attention from the I.A.O.S. The want of sufficient supervision and instruction has long been felt by some of the poorer societies, and it is hoped to overcome this difficulty by getting them into touch with a federation which, in its own interest no less than theirs, will occupy the position not only of a source of capital, but also of, to some extent, a Council of Control. Only societies accepting such control, which, of course, will not be of an arbitrary character, will be accepted as members."

The objects of the Society are defined as follows in the Rules:—"to provide funds by means of share contributions, loans or deposits, to be re-lent to approved co-operative societies for approved objects, to act as a clearing house for such societies having occasion to lend to or to borrow from each other, to act as inspectors, auditors and accountants in connection with the societies with which it has business transactions, to carry on the business of banking and insurance, and to do all such things as may be necessary to the accomplishment of the foregoing objects, subject to the provisions of the Act."

Legal opinion that placing of funds of Credit Societies with Central Credit Society, unless the investment be 'secured,' is a breach of trust under Friendly Societies Act.

436A. In view of our having been legally advised that a Credit Society could not, under either the *Friendly Societies Act* or the *Industrial and Provident Societies Act*, place any of its funds on deposit in a Joint Stock Bank (save the Bank of Ireland) but only on current account, we deemed it desirable to submit for legal opinion the question as to whether a Credit Society had any statutory power to deposit or invest any portion of its funds in the above Central Co-operative Credit Society. We have been advised that under the *Friendly Societies Acts* such disposal of the funds constitutes a "breach of trust," unless the investment be "secured" (see Section 44 (e) of the *Friendly Societies Act* of 1896). Apparently, therefore, the placing of the funds of Credit Societies on deposit in this Central Society is not in accordance with the Act of Parliament.

Your Committee's conclusions in regard to the undesirability of establishing at the present stage of the co-operative credit movement in Ireland any Central Credit Institution or Bank, together with the reasons which have led us to those conclusions, have been fully stated above. The limitations, under existing legislation, upon the functions of a Central Society, as set forth in the above legal opinion, add considerably to the difficulties connected with such an institution.

CENTRAL CO-OPERATIVE AGRICULTURAL BANK IN ENGLAND.

437. In connection with the Co-operative movement in England and Wales, a Central Bank was founded in 1908 under the auspices of the Agricultural Organisation Society—the co-operative organising body corresponding to the I.A.O.S. in Ireland. This Institution is entitled the "Central Co-operative Agricultural Bank, Limited," and is registered

under the *Industrial and Provident Societies Act*, with limited liability. Its objects are set forth in the Rules as follows : " To carry on the business of banking in all its branches including the advancing of money to Agricultural Credit Societies and Agricultural Co-operative Societies, and thereby to assist the development of agricultural co-operative credit and other forms of agricultural co-operation."

It appears that the chief reason for the formation of this Bank was the difficulty of obtaining capital for Co-operative Societies from the ordinary Banks. " A good many Societies experienced a difficulty in finding Banks willing to lend them the capital they required, and, after careful deliberation, the Committee of the Agricultural Organisation Society came to the conclusion that a Central Bank was required to meet this difficulty, and the Central Co-operative Agricultural Bank was accordingly registered." Apparently, however, the operations of the Bank have been hampered through lack of sufficient capital.

From a statement furnished to us by Mr. J. Nugent Harris, Secretary of the Agricultural Organisation Society, it would seem that the arrangements recently made with certain Joint Stock Banks in England and Wales in relation to the financing and audit of Co-operative Credit Societies have had their influence upon the policy of the Society in regard to a Central Bank. Mr. Harris states :—

Paras. 440-1.

" Since its formation the Central Co-operative Agricultural Bank has made loans to the total amount of £1,100, but many of these were made in the first case for one year only, and have been several times renewed, so that its actual transactions are considerably more in amount. In view of the proposed legislation, and the negotiations entered upon by the Board of Agriculture and Fisheries with the Joint Stock Banks for loans to be made by the latter to credit societies, the policy of the Central Bank has necessarily been a cautious one for the past two years when considering the question of granting fresh loans. Prior to its formation the greatest difficulty was often experienced by societies in obtaining the necessary funds to lend to their members. No definite decision has been arrived at yet with regard to the position to be held by the Central Bank in view of the arrangements between the Board of Agriculture and Fisheries and the Joint Stock Banks."*

The interest charged to the Societies is 4 per cent., but the Central Bank reserves the right to charge a slightly higher rate if circumstances render such a course necessary. The interest paid by the Central Bank on deposits is 3 per cent. per annum. The Bank recommends Credit Societies to pay interest to depositors at the rate of 3 per cent. : to open an account with a local Bank or with the Post Office Savings Bank ; and to pay into this account all sums received as deposits or in repayment of loans. It will be seen that under this scheme a Society sending its surplus deposits to the Central Bank receives only the same rate of interest (3 per cent.) as that paid by itself on these deposits, leaving no margin of profit to the Credit Society.

Para. 418.

Overdrafts granted to Irish Credit Societies at 4 per cent.

438. The present arrangements with the various Irish Banks for overdrafts closely resemble the famous Scotch " cash credit " system. As a result of representations made by the I.A.O.S., on behalf of the Societies in 1903, all the Joint Stock Banks in Ireland, with the exception of the Royal Bank (which has no branches in the country districts), agreed to grant overdrafts for the use of Credit Societies on the joint and several guarantee of approved persons. In the great majority of cases the approved persons are the members of the Committee, who are usually the most substantial members of the Society. Six of the Banks have agreed to a fixed rate of 4 per cent., while the others, though not consenting to a fixed rate, charge, we understand, as a rule only 4 per cent.

Statements of Irish Banks in Regard to Credit Societies.

439. In the communication sent by your Committee to each of the Joint Stock Banks information was asked for in regard to the relations which existed between the Bank and the Agricultural Credit Societies to which advances might have been made. The full replies received from the Banks have been printed as an Appendix to our Report,† but we may quote here the statements made in regard to Credit Societies.

Paras. 53-4.

Bank of Ireland.

" The Bank has readily met the requirements of the small Agricultural Credit Societies in various parts of the country whenever asked to do so, the advances being secured by a personal guarantee signed by some of the prominent members, and the results have usually been satisfactory.

" The interest is always charged by the Bank at a fixed rate of 4 per cent."

* See Appendix 5 to Minutes of Evidence.

† See Appendix 1 to Minutes of Evidence.

Belfast Banking Company.

"We have the accounts of a number of Agricultural Credit Societies, which are almost invariably overdrawn accounts. In every case the bank overdraft is secured by the joint and several guarantee of the farmers interested, and in some cases also by the local gentry, clergymen, or doctors who are interested in the wellbeing of their neighbours. The large majority of the Ulster Societies have done well, and are satisfactory clients, although a small minority of the undertakings, through faulty administration and want of ordinary business knowledge and care, have been failures with disastrous results to the guarantors. Such failures only occur in 'backward' districts under bad management."

Munster and Leinster Bank.

"The Bank's dealings with Agricultural Credit Societies have been as yet few, and it has no knowledge of their working. The advances made are secured by personal guarantees."

Northern Banking Company.

"Where the Committee are men of substance and repute, their guarantee has been accepted for loans to the various Agricultural Credit Societies. These Societies have not been uniformly successful. In many instances the Committee are not men of business, and are only too ready to delegate duties which they do not understand. But while there have been many failures, there have been also in many instances good results under good management."

Ulster Bank.

"Our advances to Agricultural Credit Societies have been comparatively moderate in amount.

"Our advances from time to time under all these headings have, on the whole, been well met, although repayment is sometimes slow."

ARRANGEMENTS OF BOARD OF AGRICULTURE AND FISHERIES WITH CERTAIN ENGLISH BANKS.

440. While dealing with the relations of the Irish Joint Stock Banks to rural Credit Societies, it may be noted that in England several Banking institutions have also agreed to grant certain facilities to these Societies. The following is the information on the subject given by the President of the Board of Agriculture and Fisheries to the House of Commons on the 14th January, 1913 :—

"The Board of Agriculture and Fisheries have been in communication with the leading joint stock banks which have branches in the rural districts with regard to the assistance which the banks can offer, in accordance with ordinary banking principles, to registered co-operative credit societies consisting mainly of small holders and allotment holders.

"The Banks named below are willing that the manager of any of their country branches should have permission to assist in the formation of such a society, with liberty to give advice to its officers on matters of book-keeping, and to take a part, when requested in the audit of the annual return without remuneration. They will also favourably consider the acceptance by their managers of the post of unpaid treasurer, provided that it does not involve membership of the society.

"These banks are prepared to allow to such a society as good rates as possible for money in their hands.

"They will also be prepared to give favourable consideration to applications from such societies for advances, but will require in each case to be satisfied as to the security for the loan, and although they will require it to be made repayable on demand, they will in general practice be ready to lend for 12 months, and the loan will then be subject to repayment, renewal, or reduction. If satisfied that the joint liability of the members of the society under its rules constitutes an adequate security for a proposed loan, the bank will require no further guarantee for its repayment. In considering the question of security, it should be borne in mind that, under the model rules for a society registered under the Friendly Societies Act, every member of the society is, equally with every other member, jointly and severally liable for all debts incurred by the society.

"The rate of interest to be charged on approved advances to such societies will be a favourable fixed rate, subject to a year's notice of alteration.

"It will thus be seen that the committee of any registered agricultural co-operative credit society may apply with some confidence to the local branch manager of any of these banks for advice and help in matters of book-keeping, accounts and audit, and that if they wish to obtain an advance from the bank and are able to satisfy the manager and directors that the security for repayment is sufficient, they may expect that their application for a loan will be granted on these favourable terms.

"A supplementary list of other banks which may agree to the above arrangements will be published at a future date." (*Here follows a list of twenty Banks*).*

Your Committee are not in a position to express an opinion in regard to the arrangements above outlined, or as to the prospect of their successful working. Their details have received considerable criticism, favourable and otherwise, in the press. In some respects the proposals go beyond the scheme in force in Ireland. It does not seem probable, for instance, that the Irish Joint Stock Banks would permit a Manager to accept the position of unpaid Treasurer of a Credit Society, or to act as its auditor.

* See Appendix 5 to Minutes of Evidence. From the recently issued *Annual Report of Proceedings under the Small Holdings Acts* [Cd. 7328-1914] it appears that 13 Credit Societies in England and Wales have obtained advances amounting in all to £1,350 from the Banks—in some cases without any individual guarantee—under the above arrangement.

The rates of interest which the English Banks will allow Credit Societies on deposits, and charge on overdrafts, are not definitely stated, and much must depend on the interpretation of such phrases as "in accordance with ordinary Banking principles," "satisfied as to the security for the loan," &c. If satisfied that the joint security of the members of the Society is adequate to safeguard a loan, the Banks will not, we gather, require (as is the practice of the Irish Banks) the personal guarantee of the more substantial members. The condition that overdrafts must be "repayable on demand" (though in general practice they are to be available for 12 months) is one which, if enforced, would cause as much inconvenience to a Credit Society as the sudden withdrawal of a large deposit. Only the practical working out of the scheme will enable its merits and defects to be adequately judged.

Criticism of scheme by Land Enquiry Committee.

441. We observe that the recent Land Enquiry Committee were of opinion that the suggested arrangements would be insufficient to attain the object aimed at. They state in their Report :—"So far as we can ascertain, however, it is not thought by agriculturists that this scheme will substantially improve the position. The great difficulty lies in the phrase, 'will require in each case to be satisfied as to the security for the loan.' . . . While agreeing that the Board of Agriculture should try, as far as possible, to use existing machinery for the purpose of improving credit facilities, we have reluctantly come to the conclusion that the scheme it promulgates will only partially meet the needs of Small Holders and small farmers. In our opinion, the time has come for devising some scheme whereby State credit can be utilised for this purpose."*

Whatever may be the immediate results, it is gratifying to find so many of the most important Banks thus evincing their willingness to assist the co-operative credit movement, thereby proving that these important commercial Banking concerns realise that there is no necessary rivalry between them and Credit Societies in the wide field of agricultural credit.

Overdraft arrangements leave unsolved the problem of Surplus Deposits.

442. While the overdraft arrangements with the Joint Stock Banks overcome the difficulties which Societies experience in having requisite funds always at call to meet possible emergencies, they do not, under existing conditions, solve the important problem of surplus deposits. If a Society have temporarily in hand a larger amount than it can make use of in loans, it is obvious that unless such surplus can be deposited or invested at the same interest as that given by the Society to its depositors, or a slightly higher rate, the Society loses by the acceptance of such additional funds. We have elsewhere recommended that the normal rate of interest allowed by Credit Societies to depositors should be $3\frac{1}{2}$ per cent. (equivalent to eightpence per pound per annum). This rate, being higher than that offered by the Post Office Savings Banks ($2\frac{1}{2}$ per cent.), would to some extent tend to attract deposits from that institution. On the other hand, it is lower than the rate (4 per cent.) at which overdrafts can be obtained from the Joint Stock Banks, and Societies would accordingly not be tempted, as so many have been, to depend for their capital mainly on those overdrafts, to the serious detriment or neglect of the important thrift side of their functions. If the rate of $3\frac{1}{2}$ per cent. be adopted, it would be necessary for a Society to obtain at least that interest upon any surplus deposits to avoid loss, while $3\frac{1}{2}$ per cent. would be required to enable any profit to be made on these funds. See paras. 382-5. Para. 448.

Some of the Banks at present allow, we understand, $2\frac{1}{2}$ per cent. on the credit balances of the current accounts of Credit Societies, while others allow no interest on these balances.

Legal opinion that the placing of Societies' Funds on deposit in Joint Stock Banks is not allowable.

443. Your Committee have gone carefully into the question of the power or otherwise of Credit Societies, both of the unlimited and limited liability type, to place their surplus funds on deposit in Joint Stock Banks. The legal opinions which we have obtained upon this important point are to the effect that the placing of the deposits of Societies in Joint

* The Report of the Land Enquiry Committee, Vol. I., Rural, pp. 425-426.

Stock Banks (as distinguished from having a credit balance on current account) is not permissible either under the Friendly Societies Acts or the Industrial and Provident Societies Acts. Under Section 44 of the *Friendly Societies Act* of 1896 the surplus funds of a Friendly Society can be invested in certain specified ways, *i.e.*, in the Post Office or Trustee Savings Banks; in the public funds; with the National Debt Commissioners; in the purchase of land and erection or alteration of buildings; and "upon any other security expressly directed by the Rules of the society or branch, not being personal security, except as in this Act authorised with respect to loans."* This applies to the case of Credit Societies based on unlimited liability. The *Industrial and Provident Societies Act* of 1893 (under which limited liability Societies are formed) gives a Society power to invest any part of its capital in any security authorised by its Rules, and also, if the Rules do not direct otherwise, in certain specified ways.†

We are legally advised that a deposit in a Joint Stock Bank cannot be regarded under either of the above Acts as "security" (save that in the case of the Bank of Ireland a Deposit Receipt is trust security within the meaning of the Trustee Act, Ireland). Similarly a deposit in a Joint Stock Bank is not, we are advised, in any sense an "investment" of funds. Although the Committee of a Credit Society would be authorised under special circumstances to place money on current account in a Bank, we are advised that it must be clearly understood that in doing so they are depositing the money, not for the purpose of investing it but merely for the proper conduct of their business—no money being allowed to remain on current account beyond what is strictly necessary for that purpose.

This serious limitation upon the power of Credit Societies in disposing of their surplus funds furnishes yet another of the numerous proofs we have received of the unsuitability for the special needs of co-operative credit of the Acts of Parliament under which the Societies are now registered, and points to the desirability of suitable legislation being introduced dealing with the whole subject. The Select Committee of the House of Lord in 1910 upon the Thrift and Credit Banks Bill recommended that Credit Societies "should be empowered to deposit their surplus funds in a local Joint Stock Bank if they so desire." With this recommendation we are in the fullest agreement; indeed, without this suggested power the whole rural credit movement in Ireland will, in our opinion, be seriously and permanently handicapped: for although we do not recommend the general reception by Societies of deposits in excess of the borrowing requirements of their members, it would be manifestly impossible for a Society to avoid having at various times surplus funds temporarily in hand, for which a profitable place of deposit should be available.

See para. 424.

Deposit of funds of Credit Societies in other Societies a "breach of trust" under Friendly Societies Act, unless investment be "secured."

444. The Rule‡ of the Irish Credit Societies dealing with investment of surplus funds is as follows:—

"(a) The General Meeting shall elect one or more Trustees to hold the property of the Society. These Trustees shall be entitled to invest any money belonging to the Society which is not required for loans in such of the following manners as the Committee and Council, or the substitutes for Council, shall sanction:—

In the Post Office Savings Bank; Public Funds; Government Securities in Great Britain or India or the Colonies; Debentures or other Securities of any Company incorporated by Charter or Act of Parliament, and paying dividend; or in the Securities of any County, Borough, Parish Council or Rates authorised to be levied and mortgaged by Act of Parliament.

"(b) The General Meeting may, by resolution, empower the Trustees to invest any portion of the funds of the Society, not required for loans, in any Agricultural Bank in Ireland with whose good management they are satisfied." (Rule IX.)

From legal advice which we have obtained in regard to the latter portion of the above Rule, it appears that any depositing of the funds of a Credit Society organised under the *Friendly Societies Act*, with another Credit Society, would constitute a "breach of trust," unless the investment be 'secured.' We have referred to this matter when dealing with the Central Credit Society created recently by the I.A.O.S.

Para. 436A.

* By Section 4 of a subsequent Act (8 Ed. VII., c. 32) power is given to Friendly Societies to place funds in any investment in which trustees are for the time being by law authorised to invest trust funds.

† See Section 38 of 56 and 57 Vict., c. 39.

‡ See Appendix 22 to Minutes of Evidence.

JOINT STOCK BANKS AND RATE OF INTEREST ALLOWED ON DEPOSITS OF CREDIT SOCIETIES.

445. Assuming any legal difficulties in the way of the direct reception by the Banks of deposits from Credit Societies to have been removed, and also the limitation under the *Friendly Societies Act* of the proportion to be borne by the deposits of a Society to the loans made to members, your Committee would strongly recommend as worthy of consideration by all the Joint Stock Banks, the adoption of the system of allowing $2\frac{1}{2}$ per cent. on any surplus funds of the Societies which may be placed with them. If necessary, conditions could be attached laying down a certain length of time for notice of withdrawal of comparatively large amounts. It must be recollected that a Credit Society can obtain $2\frac{1}{2}$ per cent. on its money, with Government guarantee, in the Post Office Savings Bank, with easy facilities for withdrawal at short notice. Some Societies have temporarily invested their surplus funds in this manner. If it were found feasible for the Joint Stock Banks to allow a slight increase on the rate of $2\frac{1}{2}$ per cent. on the deposits of Credit Societies (while charging 4 per cent. as before, on overdrafts) much of the difficulty of surplus funds in these Societies would be surmounted, and considerable benefit would be conferred upon this most useful form of small rural credit organisation. Para. 429.

A possible *modus vivendi* might be arranged upon the following lines. Any Society to which surplus deposits may be offered, will, for the present, either be forced to refuse them, or else it may reduce the rate of interest on deposits to $2\frac{3}{4}$, or even to $2\frac{1}{2}$ per cent., thus placing the Society on a level—as regards interest paid—with the Post Office Savings Bank. (This step of reducing the rate of interest has been already taken by several Irish Societies when deposits showed signs of becoming excessive as compared with the normal lending business done.) Should deposits, however, continue to be offered even at $2\frac{1}{2}$ per cent., then if the rate allowed by the Joint Stock Banks on current account balances or on deposits could be raised by only $\frac{1}{4}$ per cent., to $2\frac{3}{4}$, the Society could still accept all the savings offered to it, and make a small profit. If, on the other hand, the rate allowed by the Bank was the same (whether $2\frac{1}{2}$ or $2\frac{3}{4}$ per cent.), as that given by the Society on deposits, the Society could still accept surplus deposits without loss (save of time and trouble), but would make no profit.

In our opinion, some plan of this sort is well worthy of consideration as a basis of negotiation with the Joint Stock Banks. We should hope that Credit Societies would not find it necessary, even temporarily, to lower the rate on their deposits below $2\frac{3}{4}$ per cent. The proposed fractional rise in the rate allowed to Credit Societies would not be appreciably felt by the Banks, while the gain to the whole system of small rural credit would be substantial, more particularly in the encouragement of thrift through the gathering in of small savings by the local Societies. These savings would not in the vast majority of cases have found their way to the coffers of the Joint Stock Banks; on the contrary, the bulk of the surplus funds thus gathered in by the Societies would in time constitute a new source of business to the Banks. It is also important to note that the slightly higher rate of interest suggested would not be paid by the Joint Stock Banks on the *total* deposits of Credit Societies, but only on the *surplus* deposits, *i.e.*, those which might not, for the time, be required for lending in the Society's district. This would probably be a comparatively small proportion of the total deposits.

Possibility that Central Bank may later on be found necessary.

446. Should the Joint Stock Banks find it feasible to consent to some plan such as we have outlined, by which the surplus deposits of Credit Societies could be received by the Banks at a rate of interest which would, at the least, prevent loss accruing to the Credit Societies concerned, the probability of its being found desirable to establish in the future an Irish Central Co-operative Bank would be much diminished, if not entirely removed.

It is reasonable to assume that under a reorganised system of Credit Societies, deposits will in course of time—though the process may be a slow one—be offered to Societies in much larger quantities than at present. Hitherto only a trifling proportion of the existing Societies have found themselves forced to refuse deposits. It is also, on the other hand, equally possible that, as the benefits of the Societies as lending institutions for small rural credit purposes become more generally known and appreciated, the demand for loans may for a prolonged period prove co-extensive with, and even exceed, any increase in deposits. While that position lasted there would be few advantages to be gained by

the establishment of a Central Bank which are not at present conferred by the overdraft arrangements with the Joint Stock Banks. In any event the sounder the basis of local Societies and of surplus deposits upon which a Central Bank is built up, the more probable is the ultimate success of the institution. A Central Bank established prematurely would be in a much more risky position, and more liable to the temptation to "create" business, than one which has been gradually evolved from the growing necessities of the movement.

Undesirability of Credit Societies depending upon other sources than Deposits for Funds.

447. It seems almost an axiomatic proposition—though one much neglected in practice—that the less a local Credit Society depends upon overdrafts and similar outside advances, and the more it develops the deposit side of its organisation, the sounder its financial basis. And this equally applies to the obtaining of loans from Central Banks. Even a Co-operative Central Bank has to earn interest on its share capital, and it may be under a temptation as we have seen, to make business, and to encourage borrowing by Credit Societies, whereas it should be looked upon merely as their reserve or auxiliary source of funds. "It is absolutely wrong to make a Central Bank *rely* upon co-operative business. It may easily enough succeed in leading the local banks to borrow from it instead of scouring their districts for deposits and stimulating thrift. It is, of course, more convenient to borrow. However, the promotion of thrift is distinctly one of the co-operative banks' special objects. And how would it be if the Central Bank money were at any time to fail? The local bank would be thrown on its beam ends. Nobody would, under such circumstances, care to deposit with it, after the other supply of credit had failed. The Central Bank ought therefore to be, in a manner, independent of co-operative business, though such business there is always sure to be."*

Para. 422.

Bank Overdrafts frequently lead to discouragement of deposits.

448. In our view, this possibly injurious effect not only of a Central Bank but of facilities for overdrafts from Joint Stock Banks, in bringing about a slackening of the efforts of local Societies to obtain deposits, is an aspect of the problem worthy of more careful consideration than it has yet received. It will always be easier for the Committee of a Credit Society to make use of convenient borrowing facilities than to undertake the often troublesome task of attracting deposits in their districts. It is not possible to estimate how far the facilities afforded since 1903 by the Irish Joint Stock Banks in the way of overdrafts at 4 per cent. have adversely affected the obtaining of deposits. During our sittings several witnesses stated that an overdraft from a Bank at 4 per cent. was often cheaper than additional deposits at 3 per cent. This reasoning in the case of some Societies led to deposits being seldom or never sought after. It was pointed out that the interest would have to be paid on deposits whether the Society made use of them or not, while the interest on an overdraft was payable only to the extent to which the overdraft was availed of. The amount thus paid as interest by some Societies to the Joint Stock Bank in a year is often very trifling. For instance, Ballyragget Society in the whole course of the year 1911 paid only 9*d.* as interest in connection with their potential overdraft of £200.

J. Brett, 879.

When the interest allowed by Societies on deposits is equal to or higher than the 4 per cent. charged by the Banks on overdrafts the inducement to forego the gathering in of further deposits becomes still greater. On several occasions we were informed by Secretaries of Credit Societies that no effort had been made to seek deposits, although these could probably have been obtained if asked for. For instance, a prominent member of a successful Society in Connaught which holds a considerable amount in deposits said—

Rev. J. R. Digges, 16814. "The deposits are no advantage to us, because we pay more for them than we do to the Joint Stock Bank for their overdraft. Of course I agree that it would be better to pay the interest to our neighbours." A Secretary of another Credit Society informed us that the Society preferred to obtain their funds from the Ulster Bank at 4 per cent. rather than to accept deposits, although only 3½ per cent. was payable on the latter.

Rev. J. R. Digges, 16814.

P. C. O'Donoghue, 17,000-8.

Unless, therefore, the rate given by Societies on deposits be less than that charged by the Joint Stock Banks on advances, there will be a strong temptation to Committees to rely too much on the financial assistance of overdrafts, and to neglect the stimulation of thrift by the encouragement of local savings. This is one of our main reasons for recommending that only 3½ per cent. be allowed by Societies on deposits, as against the 4 per cent. paid on overdrafts to the Joint Stock Banks.

Para. 385.

* *Co-operative Banking* (Wolff), pp. 191-2.

CONCLUSIONS.

449. Our views and recommendations in regard to Surplus Deposits and Central Credit Institutions may be summarised as follows :—

(a) At the present stage of the co-operative credit movement in Ireland, a Credit Society is in the soundest position when the deposits offered to it and the normal demand for loans from its members approximately balance, there being a potential overdraft with a Joint Stock Bank to meet the unexpected withdrawal of deposits or any similar emergency. Paras. 432, 433, 438.

(b) Surplus deposits should not, therefore, for the present, be accepted by Credit Societies to any considerable extent. A temporary lowering of the rate of interest to depositors should be resorted to in the event of surplus deposits being offered. Para. 445.

(c) It seems improbable, for the various reasons indicated in the previous Section of our Report, that any great increase in the surplus deposits of Credit Societies will take place in the near future. Para. 338 (d), 428.

The legal restriction which prevents a Credit Society under the Friendly Societies Acts from having on deposit more than two-thirds of the amount out on loan (a restriction not inserted in the existing Rules) would seriously limit the thrift side of the movement. No such limitation would apply in the case of Societies organised under the Industrial and Provident Societies Acts. Para. 429.

(d) Much more encouragement should be given by the Committees of the Societies generally to the thrift side of the movement, and less dependence placed upon overdrafts with the Joint Stock Banks as a source of funds. The making of advances of capital to Societies from State funds should, as recommended in another portion of our Report, be gradually discontinued, such loans being allowed to remain with Societies only in very exceptional cases. Para. 447-8.
Paras. 595-6.

(e) There is, in our opinion, no present necessity for the creation of a Central Bank, in view of the overdraft and other facilities afforded by the Joint Stock Banks to the Credit Societies ; but the possibility of a central credit institution becoming essential in the future, in the interests of the further development of the co-operative credit movement in Ireland, should be borne in mind. Nor should the fact of possible competition with existing banking institutions be allowed to stand in the way of such development, if it seemed essential for the success of the movement. Para. 433, 445.

(f) Any central credit institution would in all probability find itself ultimately compelled to undertake the functions of a banking institution, and would not be in a position to limit its operations to acting merely as a Clearing House for the balancing of excesses and deficiencies in the funds of the Credit Societies. Paras. 421-3, 434.

(g) Extremely useful as Central Banks have proved in other countries, there are admittedly many difficulties and risks attached to their successful working ; recent disastrous failures in Germany illustrate this. Moreover the circumstances under which these Banks have been created elsewhere have differed very materially from the banking and general economic conditions of the Ireland of to-day. Some of the most successful of the co-operative credit movements in other countries have not found it necessary to create Central Co-operative Banks, but have utilised for the purpose other banking institutions. Paras. 405-413, 417-20.
Paras. 414-6.

(h) One serious drawback to the existing arrangements with the Irish Joint Stock Banks, as compared with the facilities afforded by the establishment of a Central Bank, is the legal restriction upon the placing of funds of the Societies upon deposit in Joint Stock Banks, save in the Bank of Ireland. Credit Societies should be empowered to place their funds on deposit in any recognised Bank. Paras. 442-5.

(c) THE QUESTION OF TRADING POWERS FOR CREDIT SOCIETIES.

During the last few years some attention has been directed to the question of the desirability or otherwise of conferring upon Agricultural Credit Societies in Great Britain and Ireland the trading powers which, to a considerable extent, are possessed by similar Societies on the Continent, more especially in Germany. The *Friendly Societies Act*, 1896, under which alone Credit Societies can be registered on the principle of joint and several liability, does not permit of these Societies trading; while, on the other hand, the *Industrial and Provident Societies Act*, 1893, under which trading Societies, such as Co-operative Agricultural Societies and Dairy Societies, are registered, does not admit of unlimited liability.

GROUNDS UPON WHICH CLAIM FOR TRADING POWERS FOR CREDIT SOCIETIES IS BASED.

450. The evidence given before the Select Committee of the House of Lords on the Thrift and Credit Banks Bill in 1910, the Report of that Committee, and the various debates in Parliament upon the Bill, served to bring out the advantages and drawbacks of the proposal. The grounds upon which the claim for the conferring of trading powers upon Credit Societies is based may also be found fully set forth in the evidence furnished to us by some of the witnesses representing the co-operative movement in Ireland. Briefly, the main reasons put forward are:—

G. Russell,
1885–1960.

(1) That the margin of profit between the rates at which a Society lends and borrows money is too small to admit of the necessary expenses, such as remuneration of Secretary, cost of inspection and audit, &c., being defrayed out of the profits for the year, in view of the usually limited turnover.

(2) That a Credit Society, owing to the necessary limitation of the area of its sphere of action, is unable so to enlarge its credit business as to increase its turnover without adding to its expenses; while, on the other hand, the profits of trading would assist in lowering the rate charged on loans to members, and in raising that allowed on deposits.

(3) That Reserve Funds, in the absence of trading powers, accumulate slowly, and could not be built up, as a rule, were it not that the expenses of supervision, stationery, &c., are borne, wholly or in part, by the I.A.O.S.

(4) That many Continental Credit Societies owe much of their success to the power of trading in agricultural requirements.

(5) That in many of the poorer districts in Ireland it is difficult, if not impossible, to obtain two sets of competent men to act as separate Committees of a Credit Society (under the *Friendly Societies Act*), and of an Agricultural Society with trading powers (under the *Industrial and Provident Societies Act*); that much needless trouble and complication of accounts is caused by practically the same Committee attempting to run both types of Society; and that without more simple and direct methods it would be impossible in backward districts to get co-operative organisations started, the legal and other distinctions between unlimited and limited liability being often confusing to the small agriculturist.

TRADING BY CREDIT SOCIETIES IN GERMANY.

451. Before considering the evidence which has been given to us for and against the proposal it may be well to refer briefly to the practice in this respect of those Continental countries where rural Credit Societies have attained their widest development, and whose example is so often quoted in support of the claim for combining trading with banking operations in the Irish Societies.

At an early date in the history of the movement in Germany the inclusion among the functions of Credit Societies of trading in agricultural requirements, together with Raiffeisen's refusal to recognise non-trading Societies, led to disagreements between the co-operative leaders and to secessions from the Raiffeisen Federation. This Federation had 4,308 Credit Societies affiliated to it in 1912, or about one-fourth of all German rural Credit Societies.

Raiffeisen Federation recognises trading as a function of Credit Societies.

452. The Model Articles issued by the Raiffeisen Federation allow the activities of a Credit Society a much wider scope than the promotion of thrift, the granting of credit, or

even the carrying on of trading. The following is a translation of the Sections which describe the aims of a Raiffeisen Society :—

“ The object of the Society is to procure the necessary capital for furnishing loans and credit to members, and otherwise to effect the betterment of their economic conditions, especially by (a) the purchase in common of farming requisites ; (b) the preparation and sale of agricultural products and of the products of rural industry for members ; (c) the procuring of machines and other objects of utility on their joint account for letting on hire to members.

“ The Society aims less at realising profits from its operations than at strengthening such of its members as are economically weak, and at promoting their intellectual and moral welfare. Its activities must, therefore, extend to (a) the furtherance of thrift ; (b) the accumulation of an indivisible common fund (foundation fund) for the advancement of the economic conditions of members ; (c) the organisation of means for the promotion of rural social welfare and love of home ; (d) the establishment of conciliation courts for the diminution of legal disputes ; (e) vigorous opposition to such transactions in real property as are against the public good, and such participation in the relief of landed property from indebtedness as may be expedient, and (f) the holding of instructive lectures and the exchange of practical experience at the meetings of members.

“ The Society rests upon a Christian and patriotic foundation. At meetings and in all the activities of the society opinions and measures of a religious or political character are absolutely prohibited.”*

In regard to trading powers, these Model Articles, it will be seen, provide for a Credit Society undertaking the purchase, sale, and hiring of agricultural products, machinery, &c., and the preparation of agricultural products (which would include the business of dairying, the purchase and sale of cattle, &c.) Subsequent developments seem to have borne out to a large extent the views of those who claimed that the carrying on of a business such as co-operative dairying, requiring a fair amount of capital, with trained business and technical management, could not properly be transacted as a mere branch of the work of a Credit Society ; but, on the other hand, there has been a steady growth in the number of Credit Societies supplying agricultural requirements to their members. This applies not only to the Societies inside the Raiffeisen Federation, but to the majority of those outside it. Trading in provisions, groceries, &c., is not, as will be seen later, carried on by these Societies. Paras. 460-1.

Imperial Federation advises separation of banking and trading.

453. The Imperial Federation had affiliated to it the large number of 9,298 Credit Societies in 1912, in addition to the 4,308 Societies of the Raiffeisen Federation (this latter body having entered into the Imperial Federation in 1905). The Model Articles of Association, in defining the constitution of a Credit Society, state : “ The object of the undertaking is the business of a loan and credit bank, to foster banking and credit transactions, as well as to promote thrift.”† Thus the Articles confine the functions of a Credit Society to banking transactions. The Imperial Federation, however, elsewhere recommends that a Credit Society should undertake the supply of agricultural requirements to its members, in the absence of a special Supply Society in the area where the Credit Society operates ; but it advises that, where possible, special supply Societies should be created, distinct from the Credit Societies.

In referring to the policy of the Imperial Federation of Germany in recommending the creation where possible of two separate Societies, one for credit and one for trading, Mr. C. R. Fay says, “ Three reasons may be given in support of this policy : first, it is demanded by the general principle of division of labour—a good accountant in a Credit Society may be a bad accountant for a Supply Society, which requires an official with sufficient technical knowledge of agricultural materials to test, where necessary, the goods delivered ; secondly, the Credit Society, especially in large villages which have a little industry, contains members who have no connection with agriculture, and who ought not, therefore, to have an unlimited liability in business risks outside their province ; thirdly, the Credit Society must be confined to a single village, while the supply Society is more suited to embrace several villages.”‡ Similar reasons were given to us by witnesses from Credit Societies in Ireland who opposed the uniting of two separate functions in one Society.

The numerous Credit Societies in Germany based on the Schulze-Delitzsch model do not carry on supply or sale business for their members.

AGRICULTURAL SYNDICATES AND CREDIT SOCIETIES IN FRANCE.

454. In France the co-operative supply of agricultural requirements is as a rule carried out through the agency of Agricultural Syndicates, which perform some of the functions

* *Report on Agricultural Credit and Co-operation in Germany*, p. 68, and Appendices, pp. 93-4.

† *Ibid.*, Appendices, p. 108.

‡ *Co-operation at Home and Abroad*, p. 55.

of Agricultural Societies in Ireland. The French Credit Societies perform useful services for these Syndicates, either in advancing money to them, or to their members individually. The relations between these trading and credit Societies have been described as follows by M. Maurice Dufourmantelle, Secretary of the "Centre Fédératif du Crédit Populaire de France."

"The credit bank intervenes usefully in lending to the syndicate the amount required, precisely as it would advance to a private individual. The syndicate signs in the name of one or more of its administrators, according to the by-laws, a note payable at three months to the agricultural credit bank in exchange for the borrowed sum; and if the syndicate wishes to protect itself against its own members, nothing prevents it from drawing a bill on each one of them for the amount corresponding to his share of the order for fertilizers.

Then, when the notes fall due, the syndicate repays the credit bank by means of the sums thus collected; and if certain members, in order to discharge their obligation, require to prolong the notes, the syndicate only has to renew the loan for a corresponding amount, either by negotiating, at the credit bank, bills drawn on the members in question and accepted by them, or else in making payable to the credit bank one or more new notes indorsed by its (the syndicate's) own debtors. Many syndicates do business in this way, and I do not know that any of them have had cause to regret it.

Certain agricultural syndicates, however, do not care to deal with collective credit, properly speaking. They prefer, whilst making a collective bargain for fertilizers with the contractor, to place as their substitute each one of their members unable to pay cash for his share of the supply directly in contact with the agricultural credit bank, whose loan is thus divided from the start into a certain number of personal loans."*

Separation of trading and banking functions in France.

455. M. Sagnier, the well-known French authority on rural credit, also deals with the separation of the functions of banking and trading. He points out that in France the law of 1894 which instituted local agricultural Credit Societies provided for their establishment as separate entities from the already existing agricultural syndicates. It enacted that all the members of one or more Agricultural Co-operative syndicates or Co-operative Insurance Societies, or a portion of such members, could create an Agricultural Credit Society, the exclusive object of which should be the aiding of the agricultural operations of the syndicates, or the members of same. The object of this provision was to strengthen the solidarity and to facilitate mutual acquaintance and confidence amongst the members of the Credit Society. But the operations of the organisations were kept separate.†

Mr. E. A. Stopford, in his *Notes on Agricultural Co-operation in France*, published by the I.A.O.S., in dealing with this distinction, says:—"The views expressed in Congress were that the agricultural syndicate and the institution for agricultural credit should be two autonomous and distinct bodies, even when they were administered by the same persons; and that the agricultural syndicates should abstain from operations of agricultural credit, for which a separate institution offers greater facilities and advantages and possibilities."

It will be noted that the practice in France points directly in favour of a separation, as far as possible, of the operations of trading and of banking, and is thus in full accord with the general principles of the Imperial Federation of Co-operative Societies in Germany, which prefers such separation.

Your Committee do not think that the system of advancing considerable sums to Agricultural Societies would be a desirable one for Credit Societies in Ireland to adopt. The alternative plan (preferred, as we have seen, by some of the French Syndicates) of placing each applicant individually in direct relationship with a Credit Society as a borrowing member follows the lines of past practice in Ireland, and seems on the whole a safer policy.

Report of Committee in India favouring separation of credit and distributive functions.

456. We note that the question of the desirability of a Credit Society engaging in distributive business was under consideration some years ago by the Conference of Registrars of Co-operative Societies in India, and was remitted, with other matters, to a special Committee for report. This Committee came to the following unanimous conclusion:—"That while distributive annexes to Rural Credit Societies are possible, it is highly undesirable that a Credit Society should deal in distributive business until it has thoroughly mastered its own special work; and that generally speaking, in view of the different areas which a Credit Society and a store can safely, and ought to, cover, and of the danger of each department damaging the other's credit, it is desirable that the separation of credit and distributive functions should, except in special cases, be insisted upon."‡

* Translation of article on "Agricultural Credit," by M. Maurice Dufourmantelle, (printed at Washington as Senate Document, No. 572), p. 18.

† "Le Crédit Agricole en France," pp. 32-34.

‡ Report of proceedings of the Fourth Conference of Registrars of Co-operative Credit Societies, India (1909).

Varying Practice in Provinces of Austria.

457. In Austria, where co-operative credit has in recent years made such rapid advances, considerable differences of opinion exist as to the desirability of Credit Societies engaging in trading operations. Co-operative purchase is forbidden to the Raiffeisen Credit Societies of Upper and Lower Austria and of Salzburg, by their Statutes; while in the other Austrian provinces this restriction, generally speaking, does not exist, and the Societies undertake this business in addition to their ordinary banking operations.*

It is not necessary to indicate further the methods adopted in other countries in this matter of co-operative purchase. We have sufficiently shown that the practice of utilising Credit Societies as trading bodies is anything but universal on the Continent, being most widely found in Germany where it is associated with the propaganda of the Raiffeisen Federation. It is not advocated by the larger Imperial Federation, save in exceptional circumstances, such as the absence of a supply Society in the neighbourhood.

The fact that in various countries where co-operative credit has been most successfully developed there are large sections of the movement in which a complete separation of credit and trading functions is found is, we believe, lost sight of by those who claim trading powers for Irish Credit Societies largely on the strength of Continental precedent.

Risks of Central Co-operative Banks engaging in trading operations.

458. Authorities seem almost unanimously agreed that it is exceedingly hazardous for Central Co-operative Banks to depart from purely banking business, and to get implicated in trading operations. To mention only one illustration, the Agricultural Central Loan Bank for Germany, founded by Raiffeisen, extended its operations in the year 1899 (when it took over the business of the trading company of Raiffeisen & Co.) to the purchase and sale of agricultural requirements, not only on behalf of Credit Societies, but of outsiders. But in 1909 the General Meeting at Breslau decided that "all trading business should be discontinued, and only banking business should be henceforth carried on."† In referring to this decision, Mr. Wolff expresses the opinion that trading by a Central Bank "is apt to confuse accounts, and to lead the Central Bank into difficulties. It is therefore satisfactory to be able to report that the entire separation of the trading branch from the money department has recently been decided upon. Each branch is henceforth to be conducted as a distinct institution."‡ The German Act of 1889 laid down that any Unions undertaking the work of auditing the accounts of Co-operative Societies must not conduct any purely business operations, such as the purchase or sale of commodities for their members.

It is clear that the advocates of trading by Credit Societies recognise the danger of uniting co-operative trading on any considerable scale with other co-operative functions, and are of opinion that only on a very limited scale is such a combination desirable or safe.

TWO BRANCHES OF PROBLEM; (a) GENERAL TRADING; (b) TRADING IN AGRICULTURAL REQUIREMENTS.

459. It will be convenient to deal with the question of trading under two distinct heads: (a) the conferring of general trading powers upon Credit Societies; (b) the conferring of powers strictly limited to trade in agricultural requirements; and to consider separately the desirability or otherwise of these powers being conferred upon Irish Credit Societies.

Discouragement in Germany of General Trading by Credit Societies.

460. Your Committee note that there does not seem to be much difficulty in Germany in laying down a clear limitation as to the nature of the trading which should be carried on by a Co-operative Credit Society. Section 53 of the Model Articles issued by the Raiffeisen Federation in 1910 for Credit Societies reads as follows: "The association promotes the economic situation of the members by the common supply of farming necessities and the common sale of farm produce. The common supply of farming necessities should be restricted to objects used in farming, such as manure, feeding-stuffs, seeds, coal, machines, &c., and should not include manufactured articles or groceries and provisions."§

It seems evident that the definite restriction thus laid down in the Model Articles is in practice very generally adhered to by the local Societies. Even the purely supply Societies confine themselves almost entirely to obtaining for their members such agricultural requirements as feeding stuffs, fertilisers, seeds, agricultural implements and machines, &c.

* *Bulletin of the Bureau of Economic and Social Intelligence, Rome, September, 1910, p. 126.*

† *Report on Agricultural Credit and Co-operation in Germany, p. 145.*

‡ "People's Banks," p. 145.

§ *Report on Agricultural Credit and Co-operation in Germany, Appendices, p. 104.*

Mr. Cahill, speaking of his enquiries into this matter in Germany, says:—"Only in rare cases do they (the Supply Societies) extend their business to include groceries, provisions, hardware and other household requisites. The writer met with Societies dealing in these articles only in the East, in connection with colonies of smallholders more or less recently established, in one district in Middle Germany (in the case of five societies) and in a few isolated instances. The Agricultural Co-operative Unions discourage any extension of business in these directions, only favouring it in particular localities when unduly high prices are continuously charged to the population by retail dealers. By far the greatest part of their business is the supply of fertilisers and feeding-stuffs, the combined annual value of which constitutes about eighty per cent. of their sales."*

Mr. H. de F. Montgomery, D.L., has pointed out the lack of success in Germany of co-operative trading in general articles, and the reasons which render such trading undesirable:—

"Co-operative stores for provisions and articles for the personal wants of the farmers, as distinguished from farming necessities—manures, seeds, feeding stuffs, machinery—have not been a success in rural districts. Farming necessities are bought on order. For general stores a stock of articles must be kept. There is always a risk of loss. In order to run such a concern on safe lines a manager must be appointed and well paid, and when the expenses, the margin over cost price that must be charged in order to cover risk of loss, are taken into consideration, the articles cannot be supplied to members much cheaper than they can be obtained from ordinary shopkeepers. (Of course this does not apply to urban communities with large industrial populations.)

The establishment of such stores does more harm in stirring up bad blood and opposition to the co-operative movement among decent small shopkeepers and their friends than even in favourable cases it is worth; and this form of co-operation is not recommended for rural districts, except under exceptional circumstances, e.g., when the farmers are being grossly imposed upon by some shopkeeper who has established a monopoly, or by a ring of extortioners, or where the shopkeepers have adopted an attitude of uncompromising hostility to the co-operative movement, which makes it necessary for the co-operators to carry the war into the enemy's camp. Such cases appear, however, to be very unusual."†

Difficulties caused in Switzerland by Agricultural Societies undertaking General trading.

461. The difficulties which have arisen in Switzerland owing to Co-operative Societies extending their operations beyond the supply of agricultural requirements are referred to by Mr. E. A. Pratt, in dealing with agricultural organization in that country:

"The question had arisen whether the local organizations created with the primary object of supplying agricultural necessities should not, also, furnish household requirements, after the fashion of ordinary co-operative stores.

"The same point has been discussed in France and elsewhere, but, generally speaking, the more prudent advocates of agricultural combination have been averse to the mixing up of business and domestic considerations, and have advocated that the co-operative purchase of fertilizers and implements for the fields should be kept distinct from the co-operative purchase of coffee and sugar for the household. In Switzerland, however, different views prevailed, and not only did some of the local agricultural associations take up both branches, but the Union formed at Winterthur in 1887, as mentioned above, organized two departments, one for agricultural and the other for domestic purchasers.

"The adoption of this principle led to a controversy which undoubtedly retarded the progress of the movement from a purely agricultural standpoint, and roused against it the whole body of general traders. While accepting the claim of the peasants that they were entitled to conduct their own enterprises on their own lines, they resented any invasion by them of the grocery, drapery, and other businesses. The associations thus found themselves boycotted for a time, and they only surmounted their difficulties by importing supplies from other countries, or, in the case of fertilizers, by starting mills of their own."‡

Views of Representatives of Irish Co-operative Movement in regard to General Trading by Credit Societies.

462. Your Committee were informed by the representatives of the co-operative movement in Ireland that they were in favour of a limitation to dealing in agricultural requirements only, in the event of trading functions being given to Irish Credit Societies. The following is an extract from the evidence of Mr. George Russell, who strongly favoured the conferring of trading powers:—

Q. "You are against giving trading powers in other than agricultural goods? A. In the Thrift and Credit Banks Bill I would like to see it limited to agricultural goods altogether.

Q. "You mean that you would not encourage the Banks that went in for trading to go outside the ordinary farming requisites? A. That is so."

Mr. Paul Gegan, Organiser of the I.A.O.S., also recommended a similar limitation to "agricultural goods—manure, seeds, spraying materials, machinery, basic slag, feeding stuffs possibly."

* *Ibid.*, p. 161.

† *Notes on Agricultural Co-operation and Co-operative Agricultural Credit in Germany*, pp. 8, 9.

‡ "*Organization of Agriculture*," pp. 173-4.

On the other hand, from the evidence given by Sir Horace Plunkett before the House of Lords Committee on the Thrift and Credit Banks Bill, it would seem that he considers the proposed differentiation, although desirable, not to be feasible. Sir Horace stated : " In practice I would limit agricultural co-operation, but in law you cannot do so." Personally he would prefer that the farmers should leave the shopkeeping business alone, but there was no principle upon which a dividing line could be drawn. " I cannot myself see (this is a question for lawyers) how you can restrict a Society, how you can possibly differentiate between manures and tea." When asked later on by Lord MacDonnell whether he thought it quite impossible to differentiate between one sort of trading and another, Sir Horace replied, " I do ; I think it would be quite impossible to draw the line."*

RECOMMENDATION AGAINST GENERAL TRADING BY CREDIT SOCIETIES.

463. It is, we have no doubt, quite possible that in regard to certain articles of trading a difficulty as to precise classification might arise, the same article being used for both farming and domestic purposes. But we do not think that, generally speaking, the line of demarcation which has been so clearly indicated in Germany and almost invariably adhered to in actual practice there, not only by Credit Societies, but by Supply Societies, would be found impracticable in Ireland. The carrying on of general trading by Credit Societies was not advocated by any witness who appeared before us, and the experience of other countries is, as has been shown, against such a procedure.

We have no hesitation, therefore, in recommending that even if Credit Societies formed under the *Friendly Societies Act* were at any time to be given trading powers by legislation, or if Credit Societies were to be established under other Acts of Parliament, such as the *Industrial and Provident Societies Act*, under which trading is permissible, such trading should, if permitted at all, be strictly confined—as in the German Raiffeisen Model Articles of Association—to purely agricultural requirements, and that general trading in groceries, provisions, hardware, &c., should be definitely excluded from the operations of the Society.

SUPPLY OF AGRICULTURAL REQUIREMENTS BY CREDIT SOCIETIES.

464. The further important question remains as to whether trading powers confined to the supplying of agricultural requirements should be given to the existing Credit Societies, or to any Credit Societies, on similar or on other lines, which may yet be established.

Mr. J. D. S. Sim, late Chief Registrar of Friendly Societies, in giving evidence before the Select Committee of the House of Lords on the Thrift and Credit Banks Bill, in 1910, said, in speaking of Co-operative Societies :—

" I have passed rules that they shall not carry on a Banking business together with a trading business in the same place.

Q. " You think the two must be carried on separately ? A. That has always been our policy in my Department.

Q. " It has been suggested by Mr. George Russell that that is undesirable ? A. We have always thought it extremely desirable not to mix up the two things."†

The complete separation of the accounts of the trading and banking business was supported by the witnesses who advocated Credit Societies undertaking trading functions. We note also that the House of Lords Select Committee in recommending that Credit Societies registered under the *Friendly Societies Act* " should be empowered to carry on jointly with their banking business a co-operative trading business" added the proviso that " the trading of each bank should be confined to its own members, and the accounts should be kept distinct from the accounts of its banking business."‡

Evidence of Representatives of local Credit Societies against Trading Powers.

465. Your Committee were considerably impressed with the fact that many of the witnesses who appeared before them as representatives of Credit Societies throughout the country, or who had personal knowledge of the actual working of these Societies, expressed themselves as opposed to the proposal that the latter should be given trading powers.

The competent Secretary of a Credit Society in County Leitrim, with a membership of 200, which granted loans in 1911 amounting to £873, stated he " would not have any trading carried on in connection with the Credit Societies."

J. Bohan,
11527-35.

* Report of the Select Committee of the House of Lords on the Thrift and Credit Banks Bill, [96], 1910, pp. 48, 51.

† Ibid, p. 30.

‡ Ibid, p. iii., para. 7.

P. Earls, 10274-6.

At our Galway sittings a witness who had been Secretary of a Credit Society and is now Secretary of an Agricultural Society, and who has therefore had experience both in co-operative credit transactions and in co-operative trading, expressed the opinion that dealing in manures and seeds should be confined to Agricultural Societies and kept out of Credit Societies. The Rev. A. Clancy, P.P., who had several years' experience as Chairman of a Credit Society, when asked his views as to the purchase of seeds and manures being included in the functions of Credit Societies, replied:—"I would have the Bank separate from the Agricultural Society—quite distinct." Mr. J. McEldowney, J.P., who was nominated as a witness by the County Londonderry Committee of Agriculture, informed us that he was a member of a Co-operative Agricultural Society, and that there was also in the parish a Credit Society, some of his friends being on the Committee of the latter. The following is an extract from his evidence:—

8888.

15176-80.

T. W. Delaney,
12437.

S. Morris, 13518.

H. Farmer,
12138-10.

H. Byrne, 18690.

R. M. D. Sanders,
4272.

T. Porter, 4908.

J. Gaffney, 11787
etc.

Q. "You have relations with an Agricultural Society and a Credit Society? A. Yes.

Q. "They do their business separately? A. Yes.

Q. "Are they the same men to some extent? A. There are members of the local Co-operative Society who are not members of the Credit Society, but as a rule they are the same members.

Q. "From your experience do you consider it better that these two Societies should do their business side by side, rather than be merged into one Society? A. I think it would be more satisfactory to have the business of the two separate."

Many other witnesses similarly expressed themselves as opposed to the granting of trading powers to Credit Societies.

Some local evidence in favour of trading powers for Credit Societies.

466. On the other hand, some members of Credit Societies urged that these Societies should have power to carry on trading operations. For instance, Rev. M. Aherne, of Youghal, who is acquainted with the work of both an Agricultural Society and a Credit Society, said:—

4066.

"I think that the Credit Societies should be allowed to buy the agricultural requirements, and sell the agricultural produce of their own members, and to initiate and conduct small rural industries connected with agriculture, such as the vegetable, honey, and poultry industries. At present they cannot engage in any business other than that of borrowing and lending money. The result is that where farmers club together for the object of buying what their farms need, and selling what their farms yield, on the most favourable terms, they must establish two Societies—a Credit Society to enable them to pay cash for their purchases, and an Agricultural Society to enable them to bulk their orders when purchasing and their produce when marketing."

Rev. J. G. Digges,
16782-5.

A few other witnesses representing Credit Societies also expressed to us the same view; but practically all the witnesses engaged in the actual management and working of Credit Societies who referred to this subject in their evidence expressed themselves as against the introduction of trading business of any sort into the working of the Societies.

Mr. H. W. Wolff's views as to general desirability of separation of trading and banking functions.

467. In giving evidence before the Select Committee of the House of Lords on the Thrift and Credit Banks Bill, Mr. Wolff was asked: "In these small bodies is there not some danger in combining co-operative trading and banking?"—He replied: "I am only in favour of it in very small societies, where they could not man the two committees. When I started the idea in Ireland, and wrote about it to the *Irish Homestead*, they were taken aback for a little while, but now they have all come round."* In his evidence before your Committee upon the same subject, Mr. Wolff said:

7087-99.

"Co-operation does not lend itself to speculation. As to the trading societies, I quite agree with you. I think that as a rule the two classes of business ought to be kept distinct, but remember the Raiffeisen Society is not a credit society solely; it is a society formed to render to its members every form of service of which co-operation is capable. Credit is only one such service. Raiffeisen wanted a society in every village which should supply everything that was needed that could be co-operatively provided for its members. Generally speaking, I agree, credit and trading are better kept apart. I should not recommend trading powers for credit societies in England at all, because they are not wanted there. I am told that in Ireland you distinctly do want them; that you have difficulty in manning two committees, and in making people understand the two different Acts. Also I am told that you have difficulty in raising capital such as distribution will supply. You can manage one committee in an Irish village, and since distribution pays you about 10 per cent. profit on your trade, it will raise capital for you"

Q. "Generally speaking, your view is that the credit business and any trading business had better be kept apart? A. Yes, generally speaking.

Q. "Do you think that is wiser? A. Generally speaking it is.

Q. "And I take it, your chief argument in combining them here is the difficulty of manning two societies instead of one? A. That is one reason; but I also understand the country people are much overcharged when buying their goods."

* Report of Select Committee of the House of Lords on Thrift and Credit Banks Bill, 1910, p. 15.

Reasons for separation of trading and credit functions.

468. In an article on "*Agricultural Credit Banks*," from which we have already quoted, Para. 91. Mr. O. R. Hobson, M.A., Associate of the Institute of Bankers, writes as follows on the subject of trading by Credit Societies: "An interesting feature of the higher organisation of the Raiffeisen Societies is the close connection between the banks and non-credit societies. The credit society is, in fact, used as the channel for the supply and sale of agricultural commodities, though in the case of larger districts where business is on a sufficiently large scale, the departments are often kept separate. Co-operative dairies, however, and other productive Societies are kept distinct. The great advantage of this inter-connection of credit and non-credit co-operative associations is, of course, the economising of expenditure. But where the two forms of activity can profitably be worked separately, this would seem the better course, on the general principle of "*ne sutor ultra crepidam*," and also for the economic reason that while the operation of the banks must be confined to a single parish, that of supply, or sale societies, may more profitably embrace a larger area." After referring to the great success of the Co-operative Credit organisations of Germany, he adds, "In the case of the Raiffeisen banks, however, it must be admitted that the policy of the management has not always been free from blemish, the mistakes which have occurred being chiefly due to unwisdom of the very kind of which mention has just been made, namely, that of combining co-operative purchase with credit."*

The fact that a trading Society can more profitably operate over a larger area than that covered by a Credit Society is one which has a material bearing upon the question under consideration.

PROVISIONS OF THRIFT AND CREDIT SOCIETIES BILL REGARDING TRADING.

469. From the text of the Thrift and Credit Societies Bill which is printed in the Appendices,† it will be seen that this Bill proposed to lay down that the Rules of a Credit Society should provide "that the banking profits of the Society in each year shall be carried to the credit of a reserve fund," and that when trading is carried on, "the surplus derived from such trading may, after all proper reserves have been made, be distributed amongst the purchasers; that separate accounts shall be kept of the trading transactions; that the reserve fund shall not be available for making good any trade deficiency, except to such extent as the other assets of the Society may be insufficient, on its dissolution, to meet the claims of trade creditors."

Although under the Bill it was intended that the accounts of the Credit and of the Trading Sections should be kept distinct, it will be observed that if the other assets of the Society were to prove insufficient on dissolution to satisfy the claims of trade creditors, the Reserve Fund might be called upon to make good this trade deficiency. We are convinced that any such liability of the funds of the credit section, or of the Society as a whole, for the debts of the trading section, would act as a deterrent to depositors. Many would undoubtedly be willing to allow their money to be utilized in a well-managed Credit Society, who would not entrust it to a Society engaging in any sort of trading.

Another important factor not to be lost sight of in the consideration of this subject is the probability that Credit Societies engaging in trade could no longer count upon receiving the same favourable facilities from the Joint Stock Banks in the way of overdrafts at low rates which they now enjoy.

New Rule of I.A.O.S. providing for Credit Branch in Agricultural Societies.

470. In their Report for 1909 reference is made by the I.A.O.S. to the difficulty of finding funds for the remuneration of the Secretaries of Credit Societies. The solution suggested was the raising of the rate of interest on loans, and the enlargement of the Society's business. The proposal to confer trading powers seems to have been referred to for the first time by the I.A.O.S. in their Annual Report for the year 1910. Again, in the Report for 1911, the following paragraph occurs:—"A new departure in agricultural credit is the incorporation in the rules of the co-operative Agricultural Societies of rules drawn up originally for Credit Societies only. It has long been felt that the very narrow margin of profit possible to most Credit Societies should be supplemented from some other source. A very natural source would be the trading profits arising from co-operative purchase and sale, but pending the passing of Lord Shaftesbury's excellent Thrift and Credit Banks Bill—which is going through the Committee of the House of Lords whilst this report goes to press—Credit Societies have no legal powers allowing them to trade. This being so, it is hoped that some of the trading societies may make use of the newly-drafted rules

* *Journal of the Institute of Bankers*, June, 1912, pp. 339-40.

† See Appendix 23 to Minutes of Evidence.

enabling them to add a banking branch to their business, and so bring within the reach of their members the advantages of co-operative credit."

This suggested addition of a credit department to Agricultural Societies is again referred to in the Report for 1912: "No further progress has been made with the legislation contemplated to give trading facilities to Credit Societies. Meantime it may not be out of place to direct attention again to the provision now made in the rules of the Agricultural Societies for providing credit facilities on what are, virtually, Raiffeisen lines for their members. As the banks are precluded from trading and from thus making profits which, in their earlier stages especially, are needed if paid secretaries are to be employed in them, that is all the more reason why societies which have proved their utility by joint purchase and sale for their members should add a department for co-operative credit, and thus discharge those useful services of which, in the absence of an agricultural bank, the rural community is otherwise deprived. So far, however, this has not been done."

We are not aware of the number of cases, if any, in which an Agricultural Society has added a separate Credit Section to its organisation, under the new Rule referred to above. This Rule permits a Committee to invest any portion of the Society's capital in advances to members on real or personal security, subject to the usual Credit Society's Rules as to loans, and to the following additional regulation:—"Members desirous of borrowing may be required to hold such number of Loan Guarantee Shares as the Committee may decide, provided that in no case shall any borrower be granted a loan to a greater amount than four-fifths of the face value of the Loan Guarantee Shares held by him."

Our conclusions in regard to the undesirability of the proposal to confer trading powers upon Credit Societies apply equally to the carrying on of banking transactions by a trading Society.

Insufficiency of profits of most existing trading Co-operative Societies for payment of competent Secretary.

Para. 450

471. Among the chief reasons given in support of the scheme for conferring trading powers upon Credit Societies is that a part of the profits arising from the trading operations could be utilised towards defraying the expenses of the Credit Society, and that one Secretary could act for both sections of the Society. We note, however, that in their Annual Reports the I.A.O.S., in dealing with the work of Agricultural Societies—i.e., the Societies which possess the trading powers suggested for Credit Societies—complain of the comparative inactivity of these bodies and the difficulty of paying a competent Secretary from the profits arising from the usual small turnover of the trading operations. The following is an extract from the Report for 1909:

"Agricultural societies are, in some respects, the least satisfactory of all the forms of co-operation which the I.A.O.S. has introduced. In most cases, they still remain small parish associations of farmers, whose system of doing business has undergone little, if any, change since they joined the movement. Long credit is still looked for and given. Scarcely anything is done except to purchase seeds and manures. The purchase of feeding stuffs and coal is extremely rare, and during the greater part of the year the majority of these societies may be said to be non-existent. Over and over again have their shortcomings been referred to in the I.A.O.S. Reports. Their Committees and secretaries have been urged to exert themselves to extend their operations in any direction in which they can render useful service to their members. As a rule, the turnover of these societies is too small to admit of the payment of a salary which would attract a really energetic and capable secretary, and they have to be contented with such clerical assistance as they can secure from persons who are otherwise busily engaged, and can only afford a little time to work which, if the scope of the society were enlarged and extended, as it should be, would demand the entire service of an active and enterprising man."

Inactivity of many trading Co-operative Societies for most of the year.

472. The question of the present inadequacy of the profits from trading in agricultural requisities to pay the Secretaries of Agricultural Societies is again referred to by the I.A.O.S. in their Report for 1910:

"As in previous years, great difficulty has been experienced in obtaining statistical information from a considerable number of the Agricultural Societies. The committees of these societies, as a rule, meet irregularly, owing to the fact that the main business, that of purchasing seeds and manures for their members, is transacted almost altogether during a few weeks in the spring, while for the rest of the year little or no business is transacted. Consequently, periodical statements of accounts are neither called for by the committees nor submitted by the secretaries. In the majority of cases the members throw the entire responsibility of carrying on their society's work upon the committee, and the committee transfer their responsibility to the secretary. The earning power of the majority of these societies is small, as it depends almost altogether on the extent of their seed and manure trade, and payment of an adequate salary to the Secretary becomes impossible. Under these circumstances the condition of things above referred to is not to be wondered at, nor can it be expected that committees will sustain an interest in a body which is only moderately active in spring and dormant during the rest of the year. . . .

"They should employ at a fair remuneration an active Secretary who would be in a position to devote as much time as is necessary to carry on the Society's work on a sufficiently large scale to pay expenses."

In dealing with Agricultural Societies in their Reports for 1912 and 1913* the I.A.O.S. repeat their complaints as to the almost universal lack of activity in these organisations.

From the above quotations it seems evident that the profits of the Agricultural Societies are in most cases comparatively small. But if the present profit on the purchase of agricultural requirements in these trading Societies is usually too small to admit of the payment of a capable Secretary, it does not seem probable that the carrying on of similar trading operations by a Credit Society would be of such material assistance in meeting not only the trading expenses but also the cost of the banking section of the work, as to justify the adoption of a course to which there are weighty objections on other grounds.

Disadvantages of one person acting as Secretary for both Credit and Trading functions.

473. Your Committee agree with the view of the I.A.O.S. that if the scope of an Agricultural Society were fully extended it would require the entire services of an active, enterprising man to conduct the trading operations. We are in full accord also with those witnesses who expressed the opinion that the duties of the Secretary of an Agricultural Society and of a Credit Society should not be united in one individual. To carry out both successfully in a well-organised Society would be to impose too much upon one person, who would also be under the temptation to devote most energy and time to that portion of the work, whether trading or banking, which proved the more profitable financially.

But there is an even more important aspect of the matter. The qualifications of a competent Secretary of a trading Society are in many respects different from those desirable in the Secretary of a Credit Society. The former should certainly possess, if possible, some acquaintance with trading and some technical farming knowledge to assist him in the ordering and testing, when necessary, of articles such as artificial manures, seeds, &c.—knowledge which is not at all essential for the satisfactory filling of the post of Secretary to a Credit Society. In several instances witnesses who occupied the latter position, to the entire satisfaction of their Society, informed us of their unfitness and unwillingness to undertake the duties of supervising trading operations in agricultural requirements.

Improbability of trading powers, if conferred, attaining object aimed at.

474. Your Committee are convinced that a large amount of benefit has in the past accrued to the smaller agriculturists of Ireland, especially in the West, through the reduction in prices caused by the competition of Agricultural Co-operative Societies with traders in such articles as manures, fertilisers, &c., and by the greatly increased attention now given by farmers to the testing of the quality of these articles. But the fact that many, if not most, of the Agricultural Societies do little or nothing for the greater part of the year—the profits in many cases not producing enough to defray the salary of a competent Secretary—is in our opinion an additional argument against complicating the machinery of Credit Societies by the introduction of trading business which, while likely to influence depositors adversely, will not, judging from the experience of the past, be the means of bringing in to any considerable extent the additional funds hoped for. For operations which at present do not, in most cases, enable trading societies to pay a qualified Secretary for the fulfilment of one special class of duty are hardly likely, if undertaken by Credit Societies, to produce sufficient to pay a Secretary competent to perform two separate descriptions of duty.

The important questions of the payment of the current expenses of a Credit Society (including some remuneration to the Secretary) and the desirability of gradually accumulating a Reserve Fund out of the profits of the Society are dealt with in other sections of our Report. In our opinion, if the suggested rates of interest (*i.e.*, $3\frac{1}{2}$ per cent. on deposits and $6\frac{1}{4}$ per cent. on loans to borrowers) be adopted, it should not be difficult for a Credit Society, once it had gained the confidence of depositors, to meet its current expenses, while adding a small amount per annum to its Reserve Fund.

See paras. 501, 531-8.

Argument for trading powers based upon difficulties arising from two types of Society.

475. One of the arguments which have been most relied upon in support of trading by Credit Societies in Ireland is the difficulty said to have been experienced, particularly in the poorer districts of the country, in getting farmers to understand the legal and other differences between the unlimited and limited liability of Societies started side by side.

* "It must reluctantly be admitted that the Agricultural Societies are standing still."—*I.A.O.S. Report*, 1913, p. 20.

G. Russell,
1885.

As one witness put it—"When farmers asked me as an Organiser why they could not do something which seemed to them quite the obvious and right thing to do, they listened with bewilderment and impatience to statements about the law not permitting this or that, and were inclined sometimes not to go on at all with the work. We must throw no unnecessary legal difficulties in the way of agricultural organisation."

While attaching due weight to this contention—for obviously it is easier, in respect merely of organising difficulties, to start one Society in a particular district than two Societies of different types—we are of opinion, for the various reasons already given, that the balance of advantage is distinctly in favour of the carrying on of banking and of trading functions by separate Societies. Any difficulties due to the want of education on the part of the smaller farmers in the past will steadily disappear, for the rising generation is taking an increasing interest in the technical and business side of farming.

Business methods as essential as enthusiasm in co-operative effort.

476. If either Credit Societies or Agricultural Societies are to be run successfully, some adequate knowledge of business methods is essential in at least the Secretary and the chief members of the Committee. It is a fatal error to expect that mere unselfish zeal in co-operative effort will bring permanent success. From the knowledge which we have gained during our Inquiry, we can fully endorse the view expressed by Mr. J. R. Cahill on this point—"it is a constant source of difficulty in co-operation that its leaders are apt to have much enthusiasm but little expert knowledge or business thoroughness, while the conditions often do not permit the payment of the wages of ability."* We do not think that the difference in the bases of liability of a Trading and a Credit Society, or the working of the two, if necessary, by the same Committee, should in the future present any insurmountable difficulty, save in rare cases. It may be added that very few witnesses who appeared before us, representing Credit Societies, referred to this alleged difficulty; while, as already pointed out, the majority of the Secretaries and other officers, both of Credit and Agricultural Societies, advocated the complete separation of the functions of trading and banking.

Paras. 465-6.

It is of interest also to note that the I.A.O.S., in their Annual Report for the year 1906, so far from referring to the impossibility of creating two Societies in the one area, stated that "in districts where Co-operative Credit Societies have been established in contiguity, if not in actual connection, with Agricultural Societies, it has been found that the bearing which one has on the other undoubtedly tends to the usefulness and prosperity of both Societies."

Any difficulties, moreover, due to the working of two Societies in the same area on different bases of liability, would be to a large extent removed by the adoption for Credit Societies of a scheme of limited liability with shares, such as that suggested in our Report as an alternative to the present unlimited liability system. Such a Society would possess a constitution resembling in several respects that of the existing Agricultural and Dairy Societies, and would accordingly be more easily understood by farmers who were already familiar with the working of these latter organisations.

See para. 356.

CONCLUSIONS.

477. Your Committee's conclusions on the question of conferring trading powers upon Credit Societies may be summarised as follows:—

(a) There are several obvious advantages, especially in the poorer districts of Ireland, in avoiding duplication of Societies and machinery where possible. There seem *prima facie* grounds, therefore, in favour of the proposal to confer trading powers upon Credit Societies.

Paras. 450, 475.

(b) A closer consideration of the whole question, however, reveals many strong reasons against the mixing up of trading operations, even in purely agricultural requirements, with the ordinary banking functions of a Credit Society. The disadvantages of such a combination of functions greatly outweigh, in your Committee's opinion, the admitted advantages.

Paras. 463, 475.

(c) The experience of the co-operative credit movement in other countries shows that while trading functions are largely carried out by Credit Societies in Germany, and to a smaller extent in other countries, such combination of functions is not at all universal, and is opposed in many important sections of the movement.

Paras. 451-7,
459-61.

* Report on Agricultural Credit and Co-operation in Germany, p. 291.

(d) The majority of the witnesses who represented local Credit and Agricultural Societies at your Committee's sittings were opposed to the conferring of trading powers in agricultural requirements upon Credit Societies, and favoured a complete separation of trading and banking functions. No witnesses favoured general trading powers for Credit Societies. Paras. 462-8.

(e) The qualifications required for satisfactorily filling the position of Secretary to a trading Society are in many respects different from those required in the Secretary of a Credit Society. The existing difficulty of finding a suitable Secretary for Credit Societies would probably be augmented rather than diminished by the proposed arrangement. Paras. 473-4.

A trading Society can, as a rule, more profitably operate in a larger area than that covered by a Credit Society. Para. 468.

There would undoubtedly be considerable difficulty in keeping the banking and trading accounts and funds of a single Society separate; in addition, there would be the temptation to a Secretary to devote himself to that portion of the work which proved the more profitable financially.

(f) Deposits would probably not be attracted to the same extent to a Credit Society carrying on trading operations as to one which confined itself to purely banking functions; nor could Credit Societies, if they undertook trading, count upon a continuance of the overdraft facilities now afforded by the Joint Stock Banks—an important consideration. Para. 469.

(g) The difficulty of getting small farmers to understand the differences between unlimited and limited liability Societies may exist in some of the most backward districts, but such difficulties will steadily diminish. In any case, they would be largely obviated if Credit Societies on a limited liability basis, as suggested in another portion of our Report, were to be established. Paras. 475-6.

(h) The trading operations of Agricultural Societies have not hitherto yielded, as a rule, sufficient profit to remunerate an efficient Secretary; and it seems most unlikely that the undertaking of similar trading operations by Credit Societies would in itself be of such material financial assistance as to justify the adoption of a course to which there are weighty objections upon other grounds. The same object could in most cases be attained, we believe, by adopting the rates of interest on deposits and loans recommended in our Report. Paras. 471-2.

(f) LOANS MADE BY CREDIT SOCIETIES.

See paras.
359-388

Even more important than the thrift side of the co-operative credit movement—a subject which we have dealt with in the Section on deposits—is the side which is concerned with the making of advances by Credit Societies to their members, this indeed being the object of the establishment of the first Raiffeisen and Schulze Societies on the Continent. The important part played by the loans of rural Credit Societies in Germany in the sphere of agricultural credit may be estimated from the fact that at the end of 1910 the returns for 14,729 Societies showed that the turnover for the year had amounted to no less than £261,665,000, and that outstanding loans and overdrafts amounted to over £93,000,000.*

LOANS ADVANCED BY CREDIT SOCIETIES IN IRELAND.

478. The loans advanced by Credit Societies in Ireland during each year since the initiation of the movement are given in the following Table. The total amount thus advanced (including renewals) was almost £500,000.

Year.			Loans advanced.	
			Number.	Amount.
				£
1895	—	100
1896	—	388
1897	—	475
1898	—	3,306
1899	—	5,550
1900	—	7,270
1901	2,534	10,459
1902	3,241	15,447
1903	3,722	20,435
1904	5,822	31,742
1905	7,453	43,641
1906	8,447	50,264
1907	9,046	53,112
1908	8,926	56,004
1909	9,213	57,640
1910	8,618	55,855
1911	7,967	56,055†

479. These figures show that the number of loans advanced by the Societies has remained almost stationary during the last seven or eight years, the number made in 1911 being, in fact, over 1,200 less than in the year 1909.

The total amount of the loans has also remained almost stationary for the past four or five years, the amount for 1911 (£56,055) being only £51 in advance of the loans made in 1908, and £1,585 less than in the year 1909.

480. The total of £56,000 lent during twelve months represents, when spread over the country, about £1,750 for each county in Ireland, an amount which, viewed in relation to the credit needs of small agriculturists, is trifling. But the most successful Credit Societies are confined mainly to four or five counties, chiefly in the West. The lending of £56,000 in a year, on easy terms of repayment, mainly in these poorer districts, has unquestionably proved a boon to many struggling small farmers. A not insignificant portion of this amount is probably represented by renewals of loans ; but even allowing for this consideration, and for the unfortunately large number of unsatisfactory or only nominally existing Societies, the benefits conferred by the loans advanced have been very considerable.

As the total capital of the Societies in 1911 was £56,554 (including deposits, £27,290 : State advances, £13,247, and bank overdrafts, &c., £16,017), while the loans made were £56,055, it will be seen that the capital (excluding the Reserve Funds, totalling £3,686) was turned over exactly once in the year.

* *Report on Agricultural Credit and Co-operation in Germany*, p. XIV.

† In 1912 the number of loans advanced was 8,522, amounting to a total of £58,244.

Report of Department's Inspector in 1910 in regard to Loans.

481. We have referred elsewhere to the Report made in 1910 by Mr. Mennell, A.C.A., an inspector of the Department of Agriculture, upon 103 Credit Societies then holding funds from the Department. This Report stated that the Rule as to loans being granted only for a specific purpose calculated to be profitable to the borrower was frequently ignored. "It seems to be a very common custom to grant a loan for any ostensible reason, which complies with this condition, though the Committee may suspect that the loan will probably be applied to other uses. Perhaps the most dangerous reason commonly set forth as that for which a loan is granted is 'for holding over stock'; this reason, of course, covers any conceivable object. Many banks in Class C. appear to have fallen into the habit of granting loans of about £5; these loans are steadily renewed, or re-granted; the borrower in such cases probably does nothing more than to increase his permanent debt by £5. It is difficult to convince some Committees that this practice is pernicious and demoralising; it should be vigorously stamped out."

See paras.
566-578*Undesirability of Renewals of Loans.*

482. The following is an extract from the evidence of Mr. Mennell at our investigation in regard to renewals of loans:—

1416-7

Q. "In regard to renewals, how did you find the position of the Societies on that matter—did they adhere to the rules of insisting on the repayment on the date on which the money fell due? A. As a rule, I think they did; but what they did not seem to understand was, that the loan was for a specified time and for a specified object, and it seemed to me that they followed on the existing custom in the country of renewing bills. The money was paid in, and a loan for the same or almost the same amount granted to the same borrower, and that amounted in my mind to a renewal.

Q. "You think that is not a good system? A. I think it is contrary to the spirit of these Societies altogether. I found renewals frequent in fifty-six cases, and not frequent in forty-seven cases."

This extremely undesirable practice of renewing loans to the same borrowers, with or without a merely nominal repayment of the loan, is one to which, as we have seen, the I.A.O.S. have often referred in their Reports. The grave injury wrought to the whole Loan Fund system in Ireland by renewals has also been pointed out. In our opinion, it is one of the most serious defects possible in a Credit Society. The practice is, we fear, still very prevalent, though not in the best managed Societies. Reports which we have seen, furnished by the I.A.O.S. organisers, frequently contain references to loans allowed by Societies to become considerably overdue. Extensions of time to a borrower are, we admit, in some cases inevitable owing to exceptional circumstances, such as failure of crops or the disease of animals. But, as a rule, the mere renewing of loans is not only injurious to the borrower; it seriously cripples the activities of a Credit Society by confining the use of its funds to a limited group of persons, thus preventing the benefits of the Society reaching all the members, as intended by the Rules. The fact that the Department's inspector found renewals frequent in 56 Societies out of 103 visited (*i.e.*, in 54 per cent.) reveals the extent to which this practice has prevailed.

See paras.
290, 291
See paras.
217-221

Mr. W. J. D. Walker, member of the Congested Districts Board, stated:—

"I would be inclined to say that a good many of the transactions of some of the banks that are not well managed are the repetition of loans year after year, and that is a system that an efficient committee and secretary should be careful about.

4404-5

Q. "You think the repetition of the loans should not be encouraged? A. Yes; and not only that, but I would like to think that an interval of at least two months should elapse between the payment of any loan and the re-issue of another loan to the same individual; and my reason is this, that a man could quite easily borrow a £5 note for a night, and pay it into the Committee, and immediately get a new loan. I would not like that the loan should be renewed to him as a matter of course."

Necessity for greater sense of local responsibility in dealing with unsatisfactory borrowers.

483. Serious as the evil of renewals is, we hesitate to recommend the adoption of a two months' interval before a new loan is given to a borrower who has repaid a loan. Such a rule might often operate against deserving borrowers; but a minimum interval of, say a month might, we think, be usefully enforced by the Committees of Credit Societies; we have, therefore, included in our draft Rules a provision to this effect.* But the main safeguard against renewals is the stringent carrying out by Committees of the Rule that "loans shall only be granted for some profitable or productive purpose, or one which, in the opinion of the Committee, will effect a saving or economy to the borrower," † and of

* See Rule 34, p. 395 and Rule 29, p. 402.

† See Rule XII. (a), Appendix 22 to Minutes of Evidence.

the Rules governing the repayment of loans when due.* No further loans should be made by a Society to persons who have proved habitually irregular in repayment.

In Germany, in the Societies affiliated to the Raiffeisen Federation, "Committees insist rigorously upon the punctual keeping of the terms of the contract, unless it is clearly shown that special circumstances have adversely affected the income or expenditure of the borrower. . . . But while such remission is granted, no Society permits borrowers to postpone the payment of interest, or the addition of arrears of interest to the capital sum." †

484. Several witnesses informed us that local Committees, in dealing with such matters as renewals of loans, would desire to have some strong outside supervising body, with power to enforce, if necessary, upon both borrowers and Committee alike, adherence to the Rules. A Secretary of a Credit Society suggested that the area of a Society should be a rural district instead of a parish, giving as his reason that "a man's neighbour will not be hard on him and compel him to keep up to his obligations; whereas in a rural district you will have outside men who will keep the pressure on, and make the borrower in that parish keep up to time. . . . If you had on the Committee of the rural district one or two from every parish they would know every borrower. . . . Each parish representative could throw the onus on others, and say 'it is the other fellow that compelled us to take action.' . . . I think the greatest fault of the local bank is that the Committee are neighbours of the borrowers. When they meet a slow pay they will not put pressure on. They do not like to make themselves unpopular."

Too often local and personal considerations of this nature are allowed to influence the action of Committees in their relations with unsatisfactory borrowers. Every effort should be made to inculcate a sense of full local responsibility for the proper conduct of the business of the Society, and for seeing that the interests of the Society as a whole are not allowed to suffer through a natural reluctance to take action against individual members.

Necessity for secrecy on the part of Committee in regard to Loans.

485. One of the most important of the existing Rules in regard to loans made by Credit Societies is that which lays down that:—

"No person other than a member of Committee or Council shall be present at any meeting of the Committee when an application for a loan is under consideration. A member of Committee who applies for a loan must withdraw while his application is being discussed. If there is a difference of opinion concerning the granting of a loan, the voting shall be taken by ballot. The proceedings with regard to loans at Committee meetings shall be kept secret, and any member of Committee or officer of Society infringing this rule shall be liable to immediate expulsion or dismissal." ‡

The widespread reluctance of would-be borrowers to allow their financial needs to become known to their neighbours is undoubtedly one of the most potent causes for the comparatively slow growth of the movement in Ireland, and also for the inactivity of many existing Societies. The same desire for secrecy is, as we have seen, one of the strongest factors at work in preventing deposits being offered to Societies. A strict adherence by Societies to the above-quoted Rule would unquestionably do much towards removing this serious hindrance to the development of the movement, both on its thrift and lending sides, and towards assisting in the growth of that spirit of mutual confidence and co-operation which are essential for its success.

Importance of spirit of mutual confidence among members.

486. We are in full agreement with the following expression of opinion by a recent writer as to the necessity for an increase in the spirit of co-operation and confidence, in the interests of the proper development of the co-operative credit movement. "Whether mutual confidence could be so fostered amongst British agriculturists that a farmer would acknowledge his need for a loan to a Committee of brother farmers is a question not easily answered. At present it is pretty clear that while an embarrassed agriculturist will confess his plight to a bank manager, and a penniless clerk or workman will creep into the pawnbroker's secret chamber to bargain for a loan, there is a very strong and positive dislike on the part of all such impecunious persons to make acknowledgment of poverty to their neighbours. Yet without such acknowledgment the co-operative bank can hardly exist, and the need of the bank is as great here as in Germany.

* See Rule XII. (m) to (p), Appendix 22 to Minutes of Evidence.

† Report on Agricultural Credit and Co-operation in Germany, p. 76.

‡ See Rule XII. (1), Appendix 22 to Minutes of Evidence.

"The co-operative spirit informing and working through men and women of goodwill seems the only possible instrument in this country for getting co-operative credit banks started. These banks cannot save the weak in will, the idler, the sluggard, or the foolish from ruin. Neither can they save the distrustful and suspicious, the unneighbourly and the prideful, or generally all those who would rather be ruined than ask a favour or receive a kindness from strangers. Before the fool who cannot be saved and the wise man who is too proud to be saved (comforting himself when the waters of tribulation go over his head that at least he has 'kept himself to himself') the co-operator with his credit bank is equally powerless. Amongst neighbourly and industrious folk he may do business. Hence the future of co-operative credit banks in Great Britain, it would seem, depends upon the growth of feelings of mutual trust, the removal of that stumbling-block of pride which hates a friendly service, and the rooting out of that anti-social rivalry between kinsfolk and acquaintances which shows itself in 'keeping up appearances,' often to the concealment and denial of positive needs."*

Several instances were brought under our notice in which better-off members of a Credit Society, who could easily have obtained advances from other sources, have preferred to borrow from the Society, with a view to showing by their example that there is nothing to be ashamed of in borrowing for reproductive purposes, and to removing that spirit of false pride above referred to.

Partial publicity attached to obtaining of sureties for loans from Joint Stock Banks.

487. Some witnesses pointed out that, after all, there is little difference between the publicity entailed by obtaining a loan from a small Committee of the borrower's neighbours, and that necessitated in many cases in connection with the obtaining by a small farmer of the consent of sureties who would be acceptable to a Joint Stock Bank. Cases have been quoted to us in which a borrower has had great difficulty, after calling upon several persons and explaining his requirements, in obtaining the consent of suitable sureties. Nor is there always much secrecy connected with the bringing of the sureties, when obtained, to the Bank. As one witness put it—"I have seen in Ireland two sureties following an intending borrower towards a Joint Stock Bank. . . and you knew what he wanted merely from their mien and gait."

See paras. 77-86

J. R. Cahill
18866

It is easily possible to exaggerate the amount of publicity supposed to be entailed by the obtaining of a loan from a Credit Society as compared with that attached to borrowing transactions carried on with other lending institutions. But at the same time the Committees of Credit Societies do not, we believe, usually realise sufficiently the importance of strict adherence to the above Rule requiring absolute secrecy in regard to all transactions of the Committee respecting loans and deposits.

Loans should be made only to members, and within Society's area.

488. An essential condition for the satisfactory working of a Credit Society is that loans shall be advanced only to members of the Society. Any violation of this basic principle of co-operative credit entails risks which should not be run. We note that one of the causes given by Dr. Cennues, of Darmstadt, for the recent co-operative failures in Hesse was the "making loans to non-members in violation of the law." No evidence of a breach of this Rule in Irish Credit Societies was given during our Inquiry; it is one of the importance of which can hardly be over-emphasised.

See footnote, p.
174.

Another essential Rule is that which provides that no funds are to be lent to any persons residing outside the defined area of the Society's operations. But in order to meet exceptional cases, as where a deserving borrower may have occasion to reside temporarily outside the Society's area, we have included in our draft Rules a provision that such a loan may be made, but only with the special consent in each case of the General Meeting of the Society.†

PERIOD OF LOANS.

489. Under the I.A.O.S. Rules no loan is granted by a Credit Society to a borrower for a period exceeding one year, unless it be made repayable by regular instalments of equal amount.‡

* *Co-operation*, Joseph Clayton, p. 71.

† See Rule 29, p. 394, and Rule 24, p. 401.

‡ See Rule XII (e), Appendix 22 to Minutes of Evidence.

In Germany loans are granted for at least a year, but in most cases the period exceeds this, being often two, three, five years, or even longer. In the year 1910, out of 91,191 loans granted by Societies affiliated to the Raiffeisen Federation, 14,903 were for periods not exceeding one year; 69,410 from one to ten years; 3,482 for over ten years; while 3,396 loans were repayable by annual sinking fund instalments. These Societies reserve the right to recall loans granted under any form of security, at from four weeks' to three months' notice. Borrowers are seldom forced to repay the whole loan in a lump sum, but usually in equal yearly or half-yearly instalments, as arranged at the time of making the loan.*

The existing Rules for Irish Credit Societies admit, it will be seen, of arrangements for repayment being made similar to those of the Raiffeisen Federation; there seems no hindrance to a loan being advanced for two, three or more years, provided it be repaid by regular and equal instalments. Admittedly cases often occur in which a loan for a period of, say, three or five years, with no necessity for any repayment until the end of that period, would be very beneficial to a small farmer. But the special constitution of these small Societies renders them unsuited in our opinion for dealing with this class of loan. Especially is this the case if a large proportion of the Society's funds consists of deposits, held at call or short notice. We agree with the Secretary of the I.A.O.S. that "any attempt to mix up the two classes of loan would lead to failure." In a separate Section of our Report we deal with the important subject of "long-term" or "mortgage" credit in agriculture—a form of credit lying outside the scope of the ordinary Credit Society.

Even when the loan advanced by a Society is made repayable by regular instalments, the maximum period should not, in our opinion, exceed three years; we have accordingly inserted this limitation in our draft Rules.†

SECURITY FOR LOANS.

490. The present Rules provide that "loans when approved by the Committee, shall be granted to members who are able to obtain two sureties approved by the Committee, or who can give such security as the Committee deem to be sufficient." As far as we could ascertain, the condition that two sureties must be obtained by a borrower is almost invariable among the Societies. In dealing with the relations of the Joint Stock Banks to small rural credit, we have referred to the much greater facility with which a small farmer can obtain sureties satisfactory to a Credit Society than the more substantial sureties who would, as a rule, be required by a Bank. This consideration is one of the strongest arguments in favour of Credit Societies as agencies for meeting the borrowing requirements of small and medium agriculturists.

Mortgage Security not advisable in Credit Societies.

491. The existing Rules, it will be noted, give room for the acceptance by a Society of other forms of security, such as a mortgage on a borrower's holding, and we have inserted a similar provision in our draft Rules† to meet exceptional cases which may arise. But in our view the condition that two satisfactory personal sureties should be furnished by a borrower is, on the whole, the safest and best for these small Societies. In Germany personal security is the most usual, but in some districts, especially in the South and West, many advances are made by Credit Societies on mortgage security, owing to the profits thereby gained as compared with those obtainable from the investment of surplus funds in a Central Bank. Mortgage security is similarly required in many cases where sufficient personal security is not forthcoming; it is also often required in connection with land transfer transactions of members, such business proving profitable both to the Society and the members, the latter obtaining money much more cheaply than they could do from other lenders for such purposes.‡ But the recent disastrous failures of Credit Societies in Hesse, due partly to the tying-up of funds in mortgage security and unwise speculation in real property, reveal the risks attached to such transactions by small Societies.

Adoption of Current Account method by many German Credit Societies.

492. The suggestion was made to us that a borrower in Credit Societies might be empowered to draw up to a certain approved sum, as required, without further formality—in fact, that a system of lending on "current account" or "overdraft" should be adopted.

* *Report on Agricultural Credit and Co-operation in Germany*, pp. 75-6.

† See Rule 29, p. 394, and Rule 24, p. 401.

‡ *Report on Agricultural Credit and Co-operation in Germany*, pp. 73-4.

R. A. Anderson,
1758.

See paras.
766-859.

See paras. 77-86.

See paras. 405-9,
430-3.

We observe that in Germany this plan is being developed ; at the end of 1910, 28 per cent. of the loans outstanding in Societies affiliated to the Imperial Federation were advanced under this system. In the limited liability Societies of Saxony and Pomerania, most of the loans are on overdraft, and the same is true of many unlimited liability Societies in other Provinces. In referring to this subject, Mr. Cahill says : " Care is taken to prevent loans on current account, that is, overdrafts, from becoming in fact standing loans. The rules of most societies holding current accounts with members provide that a certain percentage at least of the overdraft must be repaid into the account within each half-year on year, and that if such payment is not effected, the whole amount may be called in at once, the credit reduced, or the rate of interest raised. Societies find that under the rules adopted for their current account business they are afforded not only a better insight into the financial position of their members, their incomings and outgoings, but that their own resources are also maintained in a more liquid state." *

The late Dr. Haas, we observe, strongly favoured the adoption by Credit Societies of the current account method of advancing money to borrowers. In 1910 he wrote :— " This form of credit has caused no difficulties of any kind ; on the contrary, the members find it the most convenient, and that which accommodates itself best to the changing needs of business and of farming. It is also simpler for the administration of the bank. Only one resolution of the managing committee, or the committee of supervision, as regards the maximum amount of credit to be opened in favour of a member, and one furnishing of the security is required. After that this credit can be used by the member to such extent as he pleases without further formalities. It is different with loans granted for a fixed term. On every separate demand for a loan a special decision must be come to and resolutions passed, security furnished, stamps paid for, which is troublesome and costly for both parties. Moreover, in current account business the return of the moneys is livelier, because the member repaying moneys can easily get them out again in case of need. For all these reasons current account business is to be recommended, is most widely made use of in the younger *Verbände*, and is steadily on the increase in the older ones. It is also suitable to meet the needs of credit for longer terms." †

Current Account system not recommended for Credit Societies in Ireland.

493. Whatever may be the advantages attached to the " current account " system in the highly-organised German Societies, your Committee do not think that the method is one which should be introduced into Credit Societies in this country. The safest plan, in our view, is that loans, definite in amount, should be made for definite periods, and for definite purposes, approved of in each case by the local Committee. Current accounts would also render more difficult the supervision of the expenditure of loans, and would make matters easier for borrowers—a result which in proportion as it would be welcomed by individual borrowers would, we fear, be detrimental to the interests of the Society as a whole. An increase, not a diminution, in book-keeping difficulties would, in our opinion, result from a current account system.

In the draft Rules submitted with our Report we have therefore inserted a provision that the Society shall not open a current account with any borrower.‡

Desirability of payment of Loans by cheque.

494. Your Committee have been impressed with the extreme undesirability of allowing cash to remain for longer than is necessary in the hands of the Secretary or Treasurer of a Credit Society. Undoubtedly there is often the temptation for a Secretary temporarily to utilise for personal purposes a portion of the Society's funds which may be in his hands. Again few Societies are in a position to provide the necessary facilities for the safe keeping of funds. For these and other reasons we strongly recommend that where possible all the transactions of a Society, including the making of loans to borrowers and the refunding of deposits, should be by means of cheques on the Joint Stock Bank in which the Society's current account is kept, each cheque to be signed by two members of the Committee and countersigned by the Secretary.

See para. 540.

W. J. D. Walker,
4403.
E. A. Johnson,
17591-2.

There may be exceptional circumstances where, owing to the inconvenient distance of the Joint Stock Bank, such a provision would prove difficult of adoption ; we have there-

* *Report on Agricultural Credit and Co-operation in Germany*, p. 77.

† *Notes on Agricultural Co-operation and Co-operative Agricultural Credit in Germany*, pp. 38-9. Bulletin No. 2, Department of Agriculture and Technical Instruction for Ireland.

‡ See Rule 30, p. 394, and Rule 25, p. 401.

fore inserted in our Rules provision for this condition being waived in individual cases, with the consent of the proposed Agricultural Credit Section of the Department of Agriculture.*

MAXIMUM AMOUNT OF LOAN IN CREDIT SOCIETIES.

495. Under the Friendly Societies Acts, and the I.A.O.S. Rules based on them, no loan can be granted to a member of a Credit Society "which shall make the total sum owing from him to the Society at any time to exceed £50.† In Germany the only limitation upon the amount of the loan is that each Society must annually fix at its General Meeting the maximum of the total advances that individual members can hold at any one time. The figures of 4,165 Societies of the Raiffeisen Federation for 1910 are of interest‡:—

Amount of Loan.	Number of loans outstanding at end of year.	Percentage of total number.
£5 and under ...	61,070	16.2
Over £5 up to £15	102,556	27.5
„ £15 „ £25	59,176	15.7
„ £25 „ £50	63,889	16.9
„ £50 „ £100	44,764	11.9
„ £100 „ £250	32,814	8.7
„ £250 ...	11,749	3.1
Total ...	376,018	100.0

These figures show that over 75 per cent. of the loans in question did not exceed £50. Many of the large loans over £100 were, moreover, connected with mortgage transactions, land purchase, &c.,—operations not carried on by Credit Societies in Ireland. "The actual amount of credit extended to individuals by German Societies is of course dependent on each particular case: on the standing and character of the applicant and the security he can give (whether sureties or other). In the Pomeranian and Prussian Saxon societies with limited liability each member is normally entitled to a fixed credit without further security on the basis of his share holding in the Society; in the majority of Societies with unlimited liability each application for a loan is separately examined by the committee." §

Present maximum of £50 should be retained.

Rev. A. Clancy,
8312.
W. J. D. Walker,
4526.
R. G. Greene,
3145-6, etc.
Rev. J. Morris,
14434,
E. Galavan,
17848, etc.
R. A. Anderson,
1868.
See also paras.
854-7.

Para. 61.

496. Several witnesses at our Inquiry advocated a lower maximum than £50; while others favoured an extension of the maximum beyond £50 in exceptional cases. According to the Secretary of the I.A.O.S. not more than a dozen loans amounting to £50 have been made by the Societies, which is, we think, a proof that the present maximum is not too low. The average loan advanced by Credit Societies in Ireland in the year 1911 was £7; in 1910, £6 10s.; in 1909, £6 5s.; and in 1908, £6 5s. In any event, even if a higher loan than £50 were permissible under the Act, we consider that in few instances would it be advisable to lend more than £50 to a necessitous small farmer at one time. If for stocking or similar purposes he were to require a loan of a larger amount, say £100, it would be preferable and safer, we believe, to make him separate advances of £50 each in two consecutive years; the value of thrift and careful expenditure being even a more useful lesson to the small agriculturist than the advantage of judicious borrowing for reproductive purposes. The more substantial farmers, as we have seen, can as a rule obtain credit facilities at the Joint Stock Banks.

Loan in limited liability Societies not to exceed £5 for each £5 share held by borrower.

497. In the draft Rules submitted with our Report, we have, for the various reasons above indicated, retained the figure of £50 as the maximum amount of loan in each type of Credit Society.|| In the Rules dealing with loans in Credit Societies on the limited liability basis, with share capital, we have added the proviso that no loan shall be granted

* See Rule 35, p. 395, and Rule 30, p. 402.

† See Rule XII. (e), Appendix 22 to Minutes of Evidence.

‡ *Report on Agricultural Credit and Co-operation in Germany*, p. 74.

§ *Ibid.*, p. 75.

|| See Rule 29, p. 394, and Rule 24, p. 401.

to a member which shall make his total indebtedness to the Society at any time to amount to a sum exceeding £5 for each share (of £5) held by him. As pointed out elsewhere, this method is intended to encourage members to take up as many shares as possible, within their means, subject to the total limit of 20 shares (the sum of only 5s. being paid up on each share). There is thus a direct inducement—which would otherwise be absent—to better-off members to undertake a share responsibility in some proportion to their means, a responsibility which in Germany is strictly enforced by law, according to the valuation or the tax assessment of each member. Para. 357.
Paras. 316–320.

Under our suggested scheme, a medium farmer who may require, say, £30 as a loan, would have first to be the possessor of six shares of £5 each, entailing a payment of £1 10s. in two instalments, with a total reserve liability of £28 10s. payable only in case of the Society's assets failing to meet the liabilities, and only to the extent found necessary to cover such deficit. An agricultural labourer, on the other hand, who is seldom likely to require more than £3 or £5 on loan at one time, need possess only one share, entailing a payment of 5s. in two instalments and an ultimate liability of £4 15s., payable only, in whole or in part, under the same very exceptional circumstances.

Proposed right of prosecuting defaulting borrowers at Petty Sessions.

498. Your Committee agree with the suggestion that Credit Societies should be empowered to appear at Petty Sessions, instead of Quarter Sessions, against defaulting borrowers. This power is possessed by the Loan Fund Societies under the Acts of 1843 and 1900, but a Credit Society must bring such cases to Quarter Sessions, thus entailing delay to the Society and legal and other expenses to the borrowers concerned, the costs being often heavy in comparison to the amount of the loan. Cases may occasionally occur in which a Society would prefer to appear at Quarter Sessions rather than before a local Bench; but on the whole the advantages of our proposal outweigh, we think, possible drawbacks in individual instances. One advantage would be that a Society could be directly represented in Court by one of its own officers. Rev. J. R. Digges,
16744–9.
Capt. Bryan,
18044.

In any legislation, therefore, dealing with Credit Societies, the facilities now afforded to Loan Fund Societies in this respect should be made available, we consider, for Credit Societies.

RATE OF INTEREST ON LOANS.

499. One of the most important questions connected with a Credit Society—not only from the point of view of the agricultural borrower but from that of the Society itself—is the rate of interest charged by it on loans, for on the difference between this rate and that paid by the Society to depositors, Banks, and other lenders of its capital, depends the possibility of the Society being run so as to avoid an annual loss, and to build up a Reserve Fund. We have already recommended that the normal rate paid by Societies to depositors should be $3\frac{1}{2}$ per cent. per annum, as compared with the 4 per cent. now usually paid. We have devoted equal care to the consideration of the problems associated with the rate of interest charged on loans advanced by Societies. See paras. 382–7.

Under the I.A.O.S. Rules “the interest to be charged for loans not made repayable by instalments shall in no case exceed 7 per cent. per annum. The interest shall be payable on the same date as the loan is repayable.” The Committee is empowered also to charge, if found necessary, for expenses of management or expenses incurred in connection with the loan (such payment being made by the borrower at the time that the loan is advanced) and to exact fines for default in repayment.*

The Auditor of the I.A.O.S. informed us that at least 75 per cent. of the Societies charge 5 per cent., that possibly 13 per cent. charge $6\frac{1}{4}$ per cent., and that not more than six Societies charge up to the full limit. The Secretary of the I.A.O.S. said:—“As to the interest paid on the loans, 5 per cent. is a very popular rate of interest and easily calculated, but that leaves a very small margin of profit. At the same time, if a man in a congested district has been in the habit of getting accommodation and paying for it at two or three times that figure, it would be very cheap for him to get a loan from a Credit Society at $6\frac{1}{4}$ or $7\frac{1}{2}$ per cent. While I would like to see them paying $7\frac{1}{2}$ per cent. for this money, because I think it is well worth it to them, I think $6\frac{1}{4}$ ought to be aimed at; that is $1\frac{1}{4}d.$ per £1 per month. This would enable the Society to build up reserves doubly as fast as they are doing at present.” A. Swain, 4661–2
R. A. Anderson,
1688.

Normal rate of $6\frac{1}{4}$ per cent. per annum on loans recommended.

500. In dealing with the subject of deposits we have seen that the rate of interest obtainable is not so influential a factor in attracting the small depositor as the question Paras. 372–8,
382–3.

* See Rules XII. (g). (h). (m), (n), and (o), Appendix 22 to Minutes of Evidence.

See paras. 56-9,
76-86.

of the security afforded; similarly the evidence at our Inquiry conclusively proves that in the case of loans to small farmers the precise rate of interest charged is not so important a consideration as the length of time allowed for repayment, and the absence of the necessity for periodical renewals, with the attendant trouble and expenses.

After careful consideration, we recommend that the normal rate of interest on loans should be $6\frac{1}{4}$ per cent. per annum, as suggested by Mr. Anderson. This rate is already in force in some Societies; it is equivalent to $1\frac{1}{4}d.$ per £1 per month, and is therefore easy of calculation. Taken in conjunction with the proposed normal rate of $3\frac{1}{2}$ per cent. on deposits, it affords a margin of almost 3 per cent. profit to a Society, as contrasted with the usual 1 per cent. margin. From a recent report of an I.A.O.S. organiser upon Lough Credit Society (Co. Mayo) which has been brought under our notice, we observe that in the year 1913 a profit of over £12 was made, as compared with a loss of £1 6s. in 1912, the change being mainly due, in the organiser's opinion, to the rate of interest charged to borrowers having been raised from 5 to 6 per cent.

In the draft Rules submitted by us we have inserted $6\frac{1}{4}$ per cent. per annum as the normal rate chargeable on loans by Credit Societies.*

Reduction in rate of interest on Loans when Reserve Fund reaches a certain size.

501. While recommending $6\frac{1}{4}$ per cent. as the normal rate of interest on loans, we have inserted in our draft Rules a provision that "should the Reserve Fund reach the sum of £300, or one-fourth of the deposits of the Society, whichever be the larger sum, a General Meeting shall decide whether further profits shall be added to the Reserve Fund, or whether a diminution shall be made in the rate of interest charged to borrowers." It is extremely desirable that strong Reserve Funds should be gradually built up in all the Societies, but care should be taken that this is not allowed to become detrimental to the reception of local deposits. The figures for 1911 gave the total Reserve Funds of 144 Societies in which such Funds existed as £3,686, compared with a total capital for all the Societies of £56,554, of which £27,290 consisted of deposits.† The average Reserve Fund is therefore about £25, and even this small average figure would fall to £20 if a few Societies possessing exceptionally large Reserves be omitted. The largest Reserve Funds are found in the following Societies (whose deposits are also shown):—

Name of Society.	Amount of Reserve Fund (1911).	Amount of deposits.
	£	£
Geesala ...	338	717
Malin ...	196	1,242
Enniscoe Estate ...	159	425
Mullaghbawn ...	133	2,177
Belmullet ...	125	387

It will be seen, therefore, that only in one Society in Ireland (Geesala) do the conditions now exist under which our proposed Rule could be put in force by the Committee. For a considerable time to come the best policy for even the strongest Societies will be to establish Reserve Funds as a safeguard against the chance of possible losses, and to maintain a normal rate of $6\frac{1}{4}$ per cent. on loans to borrowers.

Utilisation of Reserve Fund upon the dissolution of a Society.

502. The useful provision of the present Rules (in accordance with the Friendly Societies Acts) laying down that in the event of the dissolution of a Society the surplus assets, after the payment of all liabilities, shall not be divided among the members, but shall be devoted to such useful local purpose as the General Meeting may determine, should, in our opinion, be retained under any future legislation regarding Credit Societies. This provision aims at removing from members all temptation to wind up a Society for the sake of dividing the Reserve Fund, and is a very different thing from the possibility of surplus profits being annually devoted to local purposes during the existence of a Society—a serious defect in the constitution of Loan Fund Societies.

See paras. 265-6.

* See Rule 30, p. 394, and Rule 25, p. 401.

† See Table on p. 128.

MUTUAL LIVE STOCK INSURANCE.

502A. We note that in the existing Rules of the I.A.O.S. it is laid down that "in the case of loans being sanctioned for the purpose of purchase of live stock, a policy of insurance for such stock shall, if the Committee deem it necessary, be taken out after the purchase." With the principle of this Rule we fully agree, but we recognise the difficulties which would occur if the Committees of Credit Societies, especially in backward districts, were to insist on an insurance policy being taken out in every instance of a live stock loan. It is quite probable that in the great majority of instances no such condition is in practice attached to the granting of these loans. The cost of the insurance premium, together with the veterinary fee which would probably be necessary in the event of the animal dying, would render such a method quite unworkable in the case of most borrowers from these societies. We have therefore in the draft Rules submitted with our Report allowed this condition as to insurance of the animal bought with a loan to remain optional as before.*

In our opinion the problems connected with live stock insurance in Ireland require to be treated on a comprehensive scale.

In his evidence at our Inquiry the Secretary of the I.A.O.S. stated when dealing with losses in connection with Credit Societies :—"There have been cases where people have bought live stock and cattle which died, but to meet cases of that kind we hope to establish a system of live stock insurance." The Annual Report of the I.A.O.S. for 1912 stated that no progress has been made in regard to a live stock insurance scheme, owing to funds not admitting of the extra expense involved by the work of organisation. The matter of live stock insurance has, we observe, been frequently under consideration by the Council of Agriculture, which has passed several Resolutions recommending the adoption of a general system of live stock insurance suited to the needs of small farmers.

R. A. Anderson,
1686.

Live Stock Insurance Schemes of the Congested Districts Board.

502B. Mr. Henry Doran gave us some details of a Live Stock Insurance scheme of the Congested Districts Board, which has been in operation for several years in connection with the stocking of untenanted land temporarily in the possession of the Board. The rate of premium is 2d. in the £1 on the declared value of the animal, and for this premium the Board contract to pay the owner two-thirds of the value should the animal die from any cause during the period while grazing on the farm. The number of animals insured for the five years ended March, 1912, was over 52,000, their total value being over £202,000, and the premiums paid over £2,000. After paying cost of management a surplus of £377 remained. Mr. Doran stated that the scheme "has worked very satisfactorily and has been of immense service to poor people."

4797-4802.

In England and Wales over 1,000 Co-operative Societies for the Insurance of Live Stock are in existence, but only a small proportion of these are registered.† The Board of Agriculture and Fisheries, we observe, have recently issued, under the *Friendly Societies Act*, Model Rules for Rural Co-operative Cow and Pig Insurance Societies, while a scheme of Live Stock Insurance has been drawn up under the auspices of the Agricultural and General Insurance Society, Limited.

Mutual Live Stock Insurance on the Continent.

502C. The great development of mutual live stock insurance in Continental countries, as in France, Italy, and Germany, may be realised from a perusal of the monthly Bulletins of the International Institute of Agriculture. In Germany, for instance, there are about 10,000 local Societies for Cattle Insurance. It appears that no joint stock company undertakes cattle life insurance in that country. "It is generally recognised in Germany that cattle insurance, as regards life insurance, at least, is most suitably undertaken by local organisations of a mutual or co-operative character. The members of such organisations can, among other things, observe and supervise the care given to insured animals and the action taken when anything occurs; and it is to their interest to do so. They are also in a position, without incurring any appreciable expense, to estimate correctly the value of the animals both upon insurance and in case of loss. The German Agricultural Council and other great agricultural bodies have been unanimous in recommending this form of organisation."‡

The respective parts taken by local mutual organisations and by the State in this matter upon the Continent, varied according to the particular circumstances of each country, are

*See Rule 32, p. 395, and Rule 27, p. 402.

†See *Annual Report of Proceedings under the Small Holdings and Allotments Acts* (Board of Agriculture and Fisheries) [Cd. 6770] for year 1912, pp. 18-19, and for 1913 [Cd. 7328], pp. 20-1

‡*Report on Agricultural Credit and Co-operation in Germany*, pp. 293-4.

well worthy of attention ; in view of the numerous official and other publications on the subject,* it is unnecessary for us to enter into details. We believe that there are few matters connected with the financial position of the small agriculturist in Ireland more deserving of careful consideration. There are many exceptional difficulties associated with the problem, the successful treatment of which would probably include arrangements for re-insurance ; but a well-organised scheme of mutual live stock insurance, with State assistance and supervision, would be invaluable in minimising the financial losses so often incurred in the rearing of live stock—losses which press most heavily upon the smaller farmers.

LOANS TO AGRICULTURAL LABOURERS.

503. While dealing with the loans made by Credit Societies, we may point out that a portion of the agricultural community which is likely to derive very considerable benefit from an extension of the co-operative credit movement is the agricultural labouring class.

The following official figures† showing the number of agricultural and general labourers in Ireland in each of the Census years since 1871 reveal the great decline which has taken place in the former class :—

Year	Agricultural Labourers (Males and Females)	General Labourers (Males and Females)
1871	509,344	214,685
1881	336,127	114,043
1891	280,086	87,446
1901	231,871	79,035
1911	199,900	102,099

The scope of our Inquiry does not include the consideration of the many controversial problems connected with agricultural labour, problems which have never been more prominently under public notice than in recent years. There is now a very large literature dealing with this subject. In the Bibliography appended to our Report will be found references to various official and other publications regarding Irish agricultural labourers, their rates of wages, the relations between farmers and labourers, the question of migratory labour, the bearing of the problems of labour upon those of tillage, and so forth.

See p. 389.

Evidence as to credit needs of agricultural labourers.

503A. We were glad during our Inquiry to have the opportunity of examining a number of agricultural labourers who gave us useful first-hand information in regard to the credit needs of their class. Apart altogether from the question of the reasonableness or otherwise of the rates of wages paid to agricultural labourers in this country—and no generalisation upon this point applicable to all parts of the country is possible—there is no doubt that even the best paid labourers would be greatly assisted by increased credit facilities suited to their peculiar needs. The President of the Cork County Land and Labour Association expressed to us the opinion that “if the labourers were afforded a ready and simple means for borrowing sufficient money to till the plots which they occupy, it would at once bring into state of intensive cultivation many thousands of acre plots of land in Ireland which at present with very few exceptions are only poorly tilled, and in a great many cases not tilled at all. . . . If they get an advance to enable them to till their plots for the first season they would be able to get on pretty well afterwards.”

P. Bradley,
4373-83.

Para. 76.

The witness went on to point out a fact to which we have already referred when dealing with the Joint Stock Bank system of Ireland, viz., that agricultural labourers lie outside the operations of these banking institutions, owing to the difficulty of their furnishing security. Such difficulty is naturally greater in their case than in that of small farmers.

T. Lynch, 3386.

A labourer informed us that “many of the labourers are not able to put by any reserve. Take a man with a wife and four children earning 12s. a week. At 1d. a meal (each) that would amount to 10s. 6d., and 1s. 6d. is left to procure clothes and all other necessities of life. That is the higher-waged labourer, and at the present cost of living he can badly live on that wages. If he were supplied with a loan to till his plot, it would be of great assistance to him.”

T. Cole, 12560.

Another labourer from County Cavan stated that “all of the labourers have to go very poor into cottages, and they have to work away with the farmers during the week

* See Articles in the *Journal of Department of Agriculture*, Vol. I, No. 3, p. 373 ; V., No. 2, p. 364 ; V., No. 4, p. 653 ; VIII., No. 4, p. 651 ; X., No. 1, p. 72 ; X., No. 3, p. 499.

† See p. 9 of *Report on Irish Agricultural Labourers*, 1913 (Department of Agriculture and Technical Instruction), Cd. 6928—1913.

to get the week's wages, and then their plots run bad for want of money, but if they had £5 to buy a few pigs they would be better off. A good deal of the labourers I know have to keep away all the time to support their families, and they have nothing but a few fowl; whereas if they had any means of getting money, they would be better off. In the Loan Fund Society in Ballyjamesduff they have to get two securities, and they have to treat these. Their plots would produce a lot more if they had capital."

Agricultural labourers and Loan Fund Societies.

503B. When dealing with Loan Fund Societies we have given figures showing the wide extent to which agricultural labourers resort to some of these Societies. Thus in the Kanturk, Kinsale, and Mallow Societies 55 per cent. of the borrowers in 1911 were labourers, and in the Fethard Society the number was even higher, 62 per cent. Of these borrowers, the larger proportion were in many cases agricultural as compared with town labourers. In the Kinsale Society, for instance, 45 per cent. of the total borrowers were agricultural labourers and 10 per cent. town labourers.* Probably most of the labourers who resort to the Loan Fund Societies have as little knowledge of the real rate of interest paid by them as that possessed by the labourer who informed us that he thought he was paying about 2½ per cent., when in reality he was paying over three times that rate. 14572. Paras. 254-55.

Although the Loan Fund plan of advances for twenty weeks, repayable weekly or monthly, suits the requirements of weekly wage earners better than those of small farmers, the system, for the various reasons fully indicated by us, cannot adequately meet the needs of small agricultural credit. Paras. 270-1.

We have no doubt that in the majority of cases a deserving and industrious labourer can obtain a small advance from the farmer who employs him or from a neighbouring farmer, and, in exceptional cases, can do so from a Joint Stock Bank on the security of a friend. In passing we may note that several instances were brought under our notice of comparatively large sums having been saved by young labourers who had been industrious and thrifty.

An injurious form of credit referred to by the Chairman of the Irish Land and Labour Association in the Bandon district is that under which labourers obtain credit from egg merchants early in the year, on the condition that they sell their eggs to these dealers at a halfpenny a dozen less than the current rate. This witness stated that his Committee had considered the question, and were of opinion that the establishment of Credit Societies where the labourer could borrow from £1 to £7 would be of great advantage to the labourers holding cottages and plots, especially in the early part of the year when their seed potatoes are exhausted. His Committee also suggested that the labourers themselves should subscribe a small sum annually towards a security fund, and that those subscribing should have the power to recommend deserving borrowers to the Credit Society. J. Cummins, 3507-9.

View of Irish Milk Commission in regard to facilities for purchase of cows by labourers.

503C. Several witnesses urged the desirability of increased facilities for enabling a labourer to purchase a cow. No other method, such as advances from State funds for the purpose, can compare, we believe, with the making of such loans through the agency of Credit Societies. This view, we note, was also taken by the Irish Milk Commission, who stated in their recently issued Report that there are many cases "where a thrifty labourer would get grazing for a cow, if he had the means of purchasing one. We think the proper way of enabling such a man to obtain a loan for this particular purpose is the development of the Raiffeisen type of co-operative or agricultural credit bank, which lends on personal security, and which has special means of ascertaining the applicant's character, circumstances, agricultural knowledge, and all the other factors which must decide the suitability of such a man for obtaining a loan, involving a certain risk which it is impossible for a State department to take with safety. We have, however, not thought it necessary to make inquiry as to the whole question of rural credit and small loans, as there is a Departmental Commission at present conducting such an inquiry."†

It is for the purchase of live-stock that the greater number of loans are at present obtained by small farmers from Credit Societies. We do not propose to enter into the various questions which were brought before us as to the relative merits of giving a labourer additional land for the keeping of a cow and of the system under which the cow is grazed on the farmer's land. These matters have been dealt with by the Milk Commission. 3552-60.

Labourers as borrowers from Credit Societies.

503D. An obvious difficulty in some districts in bringing labourers into touch with Co-operative Credit Societies is the class distinction between them and small farmers.

* See Appendix 19, p. 551, Minutes of Evidence.

† Report of the Irish Milk Commission [Cd. 7129], 1913. Paras. 46-50, pp. 23-26.

In the western districts, where the dividing line is not so clearly marked, the difficulties are usually not so great as in other portions of the country. From the information which we have received through the organisers of the I.A.O.S., it appears that in many Credit Societies labourers are borrowers and are exceedingly prompt in repayment.

The question of organising Credit Societies catering chiefly for the special needs of agricultural labourers is, in your Committee's opinion, one demanding every consideration; for upon the retention of the labourer upon the land mainly depends the solution of some of the most difficult problems of Irish rural economy.

CONCLUSIONS.

503E. Our conclusions and recommendations in regard to Loans made by Credit Societies may be summarised as follows:—

Paras. 478-80.

(a) Both the number and amount of loans advanced by the Credit Societies in Ireland have remained practically stationary for the past four or five years. Small as the total of £56,000 lent in twelve months may seem when spread over the country (being about £1,750 for each County), the benefits conferred by these loans, especially in the poorer Western districts, have been very considerable. The total amount lent since 1895 (including renewals) is approximately £500,000.

Paras 481-2.

(b) The practice of renewing loans is one which has from the beginning been a serious defect in many Societies, and has been adversely commented upon by the I.A.O.S. Out of 103 Societies reported upon in the year 1910 by an Inspector of the Department, renewals were found to be frequent in 56 Societies.

Paras. 483-7.

(c) An interval of a month might with advantage be insisted upon between the repayment of a loan and the making of a fresh loan to the same borrower. But the main safeguard against renewals is a greater realisation by local Committees of their responsibility—in the interests both of depositors, borrowers, and the Society as a whole—for insisting upon the observance of the Rules in respect of punctual repayment of loans. Greater secrecy should be observed on the part of Committees.

Para. 489.

(d) The present Rule as to the period for which loans may be advanced is, in our opinion, satisfactory and requires no amendment, save that there should be a maximum term of three years.

Paras. 490-1.

(e) Although the existing Rules admit of other security than the furnishing of two approved sureties by a borrower, we believe that this latter form of security is that which, save in exceptional cases, should be insisted upon by local Committees. Mortgage security is unsuited in several respects for the financial arrangements of a Credit Society, and may lead to injurious results.

Paras. 492-3.

(f) We cannot recommend the adoption of the current account or overdraft system in the making of advances by Credit Societies in Ireland to members. In our opinion the safest course is that each loan should be of a definite amount, for a definite period, and for a definite purpose to be approved of in each case by the Committee.

Para. 494.

(g) Wherever possible, payment of loans should be made to borrowers by cheque upon the Joint Stock Bank where the Society has its current account.

Para. 495-6.

(h) No change should be made in the present maximum of £50 for loans to borrowers.

Para. 497.

(j) In Societies based on the principle of limited liability, with share capital, no loans should be granted to a member which would make his total indebtedness to the Society to amount to a sum exceeding £5 for each share of £5 held by him.

Para. 498.

(k) Credit Societies should have the power of appearing at Petty Sessions, instead of Quarter Sessions, against defaulting borrowers.

Paras. 499-501.

(l) The normal rate of interest charged to borrowers for loans should be $6\frac{1}{4}$ per cent. per annum ($=1\frac{1}{4}d.$ per £1 per month). But should the Reserve Fund of a Society reach £300 or one-fourth of the deposits, whichever be the larger sum, a General Meeting should decide as to the desirability of a diminution in the rate charged on loans.

Para. 502.

The existing provision as to the utilisation for local purposes of the Reserve Fund on the dissolution of a Society should be retained in any future legislation.

Paras. 502A-C.

(m) The establishment of a sound scheme of mutual live stock insurance suitable to the needs of the small farmers of Ireland is a matter calling for special attention.

Paras. 503-D.

(n) The needs of agricultural labourers in respect of the funds required for the proper cultivation of their plots, the purchase of a cow, etc., can best be met by Co-operative Credit Societies.

(g) REGISTRATION OF CREDIT SOCIETIES, ANNUAL RETURNS, AND
CUSTODY OF DOCUMENTS.

In this Section we propose to deal briefly with questions affecting the registration of Credit Societies, the furnishing of their statutory Returns, and the proper custody of books and documents.

PREMATURE REGISTRATION OF CREDIT SOCIETIES IN IRELAND.

504. It is in our opinion eminently unsatisfactory that such large numbers of Credit Societies in Ireland should have been nominally created without more reasonable prospect of their success. Of the total of 310 Societies at one time or another registered in Ireland, almost two-fifths seem to have died, or to have been still-born. The natural desire of Organisers to show a record of work done has in many cases led, we believe, to this premature and unsound creation of Societies. Again, many Societies may have been formed with little or no present prospect of success, in the hope that success would follow later. As the Auditor of the I.A.O.S. put it, "in a great many cases these Societies are experimental Societies. The banks are started in a great many cases, and they don't go any further. That is like putting in seed that does not come up. . . . We must recognise that every Society cannot be a success. The seed grows in some places and not in others. As we go along we weed out those without results. We give them a chance and assist them as much as we can. After a certain time, when we fail to get statistics, we wipe them off our register."

A. Swain, 4696-8.

Similar defect in the Co-operative Credit movements of other countries.

505. Human nature being much the same in all countries, it is not surprising to find elsewhere the existence of similar defects due to unwise haste in the organising of Societies without proper regard to the prospects of permanent success. Mr. H. de F. Montgomery, in writing of the General Meeting of the German Rural Co-operative Societies, held at Bonn in 1903, which he attended as the representative of the Department of Agriculture and of the I.A.O.S., states :—

"The keynote of the speeches made at the opening of the proceedings, both by Dr. Haas, and still more by the various representatives of German Governments, was that the better organisation of the existing co-operative societies was now a much more pressing matter than their further multiplication. The emphasis laid on this point was very noticeable. In subsequent conversation with an experienced and enthusiastic co-operator, I was told that at the present moment there is a considerable reaction in rural public opinion with regard to the movement amounting in some districts, to widespread distrust and suspicion of the propagators of the movement due to the inconsiderate haste with which many Societies have been started, where the people and the district were not ripe for them.

"It is laid down as a principle in the working rules of both organisations that Societies should never be started except where men capable and worthy of managing them are forthcoming; but the anxiety of the officials of the *Allgemeiner Verband* and the *General-Verband* (Neuwied), respectively, to occupy the ground before the other organisation does so, and the emulation of the organisers in their efforts to be able to show a good record of new Societies started, have led to laxity in interpreting this rule, and though the sound principles on which both organisations work prevent anything in the shape of disaster, bankruptcy, or heavy loss to individuals resulting, the operations of Societies formed of unsuitable materials are inevitably very disappointing to those who have been induced to join them by representations of the great benefits derived by the members of sound and successful Societies."*

The same unsound policy of paying more attention to quantity than to quality, both in the numbers of Societies and in membership has been met with in connection with the co-operative credit movement in France. M. Maurice Dufourmantelle, in an article on Agricultural Credit, writes :—

"Promotors of Credit banks occasionally take pride in starting their institutions with a certain show, endeavouring to found them with an imposing number of associates. This is not always a sound policy. To admit too many members at first may open the doors to doubtful, even dangerous elements, which may some day have to be eliminated. We think it preferable, on the contrary, to begin with a restricted and carefully selected membership, for instance 15 or 20 convinced founders of good standing in the neighbourhood. These would certainly only wish to recruit associates worthy of belonging to the credit bank, which carefully organised in this way, among persons well known for their honesty and respectability, would thus rapidly acquire the sympathy and confidence of the public."†

* *Notes on Agricultural Co-operation and Co-operative Agricultural Credit in Germany*, pp. 51-2.

† *General Theory of Co-operative Credit in France and other Foreign Countries*. (Translation printed as a Senate Document, 572, Washington), p. 22.

Warnings of Mr. H. W. Wolff and Sir R. Carlyle as to creation of indifferent Societies.

506. In the Preface to his *Co-operative Credit Bank Handbook*, Mr. H. Wolff utters a note of warning against this premature creation of Credit Societies.

"A Co-operative Bank cannot be expected to thrive where those who are intended to be its members are not themselves aware that they want such an institution. You must have willing hands to build up the fabric, and willing hands to sustain it, or it will not stand long. A Co-operative Bank cannot be successfully forced upon an indifferent membership, or pampered into useful existence by eleemosynary gifts from outside. In such cases light come is only too likely to mean light go.

"People may, indeed, really be in want of the bank without being aware of it—as Scotchmen were unaware that they wanted cash credit until it was introduced among them by the Royal Bank of Scotland anxious to circulate its paper money. In such cases it will be right to *argue* with such people. But for the actual formation of the Bank it will be well to await their own time, the time when a nucleus of them actually resolve to set their hand to the work and undertake its responsibilities."*

At the Conference in 1912 of the Registrars of Co-operative Credit Societies in India, the Hon. Sir Robert Carlyle, K.C.S.I., who presided, laid special stress upon the dangers attendant upon the premature founding of Credit Societies in that Empire.

"There is one point of such outstanding importance that I will at first confine my remarks to it alone. The very success of the co-operative movement brings its own dangers and it appears to me that the chief of those dangers is that we may be tempted to go too fast and out-grow our strength. We should, I think, be very careful in organising new Societies. One good Society does more good for the co-operative cause than twelve indifferent ones, as one Society well-run on sound co-operative lines does good not only to its own members but also outside throughout the neighbourhood in which it is working. It forms a centre from which the understanding of co-operation is radiated, and one such centre is worth many Societies in the working of which the benefit of co-operation is indifferently illustrated.

"There is a distinct danger now that the great benefits of co-operation are conspicuous that we will be pressed to move too fast. I would not have ventured to say this four years ago when the movement was in its infancy, and I trust you will not misunderstand me and think I want to throw cold water on the rapid extension of the co-operative movement. But I do wish to emphasise the fact that there is a danger in too rapid extension which may endanger the movement itself.

"Pressure is, in many cases, being brought to bear on you to register more and more Societies, whether the people are ripe for them or not, and weak Societies will in the long run tend to prevent the movement developing as it otherwise would do. The co-operative movement is one of the most important, if not quite the most important, movement of the present day in India, and because of its very importance we should make sure of our ground as we advance."†

I.A.O.S. now require a nucleus of forty members before forming a Society.

1542.

507. The policy of cautious advance thus strongly advocated by so many competent authorities in various countries is one which is equally desirable for Ireland. From the evidence of Mr. P. Gegan, organiser of the I.A.O.S., we gather that of recent years his practice has been to refuse to start a Credit Society unless 40 solvent men in the district are ready to sign the form of application and to pay the membership fee. This policy, he stated, has been approved by the I.A.O.S. It is undoubtedly a wise one, and one which if adopted from the first by all the I.A.O.S. organisers would have done much to place the movement on a sounder basis; would have prevented the registration of so many merely nominal Societies; and would have avoided the losses suffered in some cases by solvent members through the default of persons of doubtful character or solvency, who should never have been admitted as members.

In view of the past economic and social history of the small agriculturists in many districts of Ireland, especially in the West, disappointment must be occasionally expected, even where every reasonable care has been taken in the formation of a Society, and in its subsequent audit and inspection. But the movement will inevitably suffer if considerable numbers of Societies are prematurely started and meet with an early end. In this sphere of action, *festina lente* is pre-eminently the wisest and indeed the only safe policy.

STATUTORY ANNUAL RETURNS OF CREDIT SOCIETIES.

508. A Credit Society is under a statutory obligation‡ to furnish to the Registrar of Friendly Societies, not later than the 31st of May, an Annual Return of its receipts, expenditure and funds, as audited. Your Committee attach considerable importance to the strict enforcement of this essential Rule.§ Credit Societies whose accounts and books are kept written up to date by a fairly competent Secretary ought to have little difficulty in complying with it.

In loco cit., pp. 3 and 4.

† *Proceedings of Sixth Conference of Registrars of Co-operative Credit Societies, India, October, 1912.* p. 3.

‡ See *Friendly Societies Act*, 1896 (59 & 60 Vict. Ch. 25, Section 27.)

§ See Rule VII. (k), Appendix 22 to Minutes of Evidence.

Need for simplified form of Annual Return.

509. In our opinion the existing elaborate form of Return could with considerable advantage be to some extent simplified, at any rate in appearance. It seems at present in several respects unduly cumbersome and complicated, and is rather calculated at first sight to deter a novice. According to the statement of the auditor of the I.A.O.S., the Returns which the Registrar of Friendly Societies obtains from the Societies are as a rule not filled up by the Secretaries of the latter, but by the auditor himself. He said: "I filled up these Returns for him (the Registrar), and if it had not been for us he would not have got them. The form I have already handed in you cannot expect a country Secretary to fill up. The Secretaries are frightened when they see it." A. Swain. 4701.

Defective form of Account Books furnished to Societies in the past.

510. The form of the account books, &c., furnished to the Societies might also, in our opinion, be with benefit altered, so as to be of more assistance to an inexperienced Secretary, while at the same time furnishing fuller information, and in a more satisfactory shape, than at present. In the Report submitted to the Department of Agriculture in 1910 by their Inspector in regard to 103 Credit Societies holding loans from the Department, the following comments were made on the system of book-keeping in the Societies:— Paras. 566-577.

"The present system of having the cash account in the ledger tends to render posting of accounts more difficult and liable to error. It is considered that it would be much better to have a separate cash book with three columns for cash, bank, and interest; such a system would probably enable bank Secretaries and Committees to check the receipts and bank lodgments, and would facilitate the posting of accounts. It is most important that the system of book-keeping should be so arranged as to facilitate the members of an ordinary bank Committee in checking the books at each Committee meeting. The neglect of Committees to attend to this most important part of their duties has unquestionably permitted several societies to get into financial troubles, which would have been avoided if the Committees had at each meeting satisfied themselves that the accounts were correctly presented by the Secretaries, written up to date. The ledger account might also be improved."

Mr. Mennell, who carried out the inspection referred to, said in his evidence: "I never liked the form of books that were provided for these banks. There is a single ledger. There is only one column, and it really was very difficult for a man to show how much he had in hands and ought to lodge at any given date." I 1474.

The Secretary of the Cloonmorris Credit Society also referred to the necessity for an improved system of book-keeping. He stated:—"The ledger now commonly in use, while being suitable for the interest, expenses, and other small accounts, does not suit for cash accounts. For the latter the Dr. side of the folio should have separate sets of columns for (1) cash receipts in repayment of loans; (2) interest received; (3) fines; (4) contributions to expenses; and, (5) bank withdrawals; while on Cr. side it should have sets for (1) bank lodgments; (2) cash payments for expenses or other purposes; (3) loans in cash; (4) other loans. The whole difficulty might be got over by having a separate Ledger for cash accounts ruled off so as to provide columns." A simplification of the existing form of books and accounts was also advocated by Mr. E. A. Johnston, representative of the Wexford Co-operative Council. J. Bohan, 11501. 17589-90.

Improvements recently effected in form of Return, &c.

511. The whole question of the forms of Annual Return, Cash Book, &c., has, we are informed, been recently under informal consideration by a small Committee representing the Board of Agriculture and Fisheries, the Department of Agriculture and Technical Instruction, the Agricultural Organisation Society of England and Wales, and the I.A.O.S., and has also been under the notice of the Registrars of Friendly Societies, with the result that considerable improvements have already been effected. We need not therefore refer any further to the subject, beyond pointing out that care should be taken that the forms of Annual Return and books in their revised shape are adapted for the use not only of unlimited, but of limited liability Societies. If special legislation in regard to Credit Societies be found desirable, and the present necessity for registration under the *Friendly Societies Act* (for unlimited liability Societies), and the *Industrial and Provident Societies Act* (for limited liability Societies) be removed, further changes in the form of Annual Return may be found needful.

Whatever form of Annual Return be finally adopted, we recommend that a specimen Return, fully filled up, be printed for the information and guidance of local Secretaries. It is not at all satisfactory that these Secretaries should so widely follow the practice of throwing the responsibility and trouble of filling up their Returns upon the shoulders of the auditor. The completing of the Return is in itself a useful educative process for the Secretary.

Failure of many Credit Societies to furnish their Statutory Returns.

512. The Secretary to the Treasury, in replying some years ago to a question in the House of Commons in regard to the failure of Credit Societies in Ireland to furnish their Annual Returns, stated :—

“ The number of agricultural banks which are in arrear with their annual returns for two years or more is approximately 100, by far the greater number of which consist of Societies which have never done business. Every effort is made to secure the returns under the Act, where this can be done without too great expense. In the Lettera case the expenses to the Department [the Treasury], after giving credit for the £1 costs allowed, amounted to over £20.”*

The Registrar of Friendly Societies for Ireland informed us that the obtaining of the statutory Returns from Co-operative Societies was one of the questions that had given him the most trouble. He explained :—

“ The difficulty is this—the movement both as regards the creameries, under the one Act, and these Societies under the other, was a new one. There were a great many Societies started which I call skeleton Societies, which were formed and got up and never did any work. I was reluctant to proceed against them for two reasons—first, the expense to the Treasury, because the Act provides for a small fine if the magistrates like, and the expense of sending down a witness to prove the default, is heavy, and the consequence was that you had very often a small fine and a large outlay. It was not satisfactory. It looked as if the result was not commensurate with the advantage.”

Mr. Miley referred also to the difficulty created by the expense of prosecuting, and to his personal reluctance to take steps against the Credit Societies or Creameries, “ lest it should perhaps kill the movement altogether.” In the past two years he had obtained the consent of the Treasury for cancelling about 150 Creameries. “ I satisfied myself that they were not doing any work, that they were derelict, and they were wiped out. . . . I have not yet started my campaign of wiping out the Credit Societies. Many of these Credit Societies are skeletons which never did any business at all.” This witness explained that the ideal of those who registered large numbers of Creameries was “ to keep the name of the district registered, so that if they did start work they would have the copyright in the name.” This reason would hardly be applicable in the case of Credit Societies.

Statistics showing percentage of Societies failing to furnish Returns.

513. We have shown that many Societies have from time to time been registered without much reasonable prospect of their coming into operation. This premature formation and registration is one of the chief causes of the considerable discrepancies which appear from a comparison of the annual figures of the I.A.O.S. and of the Registrar of Friendly Societies. From the Table on page 128 of our Report it will be seen that the number of registered Credit Societies failing to furnish any returns, either to the Registrar or to the I.A.O.S., has been on the increase, especially in recent years. Even when allowance has been made for those Societies which never actually started work after registration, and which therefore never had more than a nominal existence, the position cannot but be regarded as extremely unsatisfactory in regard to many of the Societies known to be, or presumed to be, in operation.

The following figures for the past eight years show the increase which has taken place in the number of defaulting Societies :—

YEAR.	(a) No. of Societies on books of Registrar of Friendly Societies.	(b) No. of Societies included in I.A.O.S. Annual Report as working.	(c) No. of Societies in column (a) failing to furnish returns to Registrar of Friendly Societies.	(d) † No. of Societies in column (b) failing to furnish returns to Registrar of Friendly Societies.
1904	232	190	88	46
1905	264	226	71	33
1906	279	213	95	29
1907	294	226	107	39
1908	305	267	118	80
1909	309	224	135	50
1910	310	217	147	54
1911	308	193	171	56

* See *Parliamentary Debates*, House of Commons, 8th June, 1910.

514. Taking the published figures for the year 1911, it appears that :

(a) Of the 308 credit Societies on the books of the Registrar, no less than 171 or over 55 per cent., furnished no Annual Returns, as compared with 38 per cent in the year 1904 ;

(b) Even of the 193 Credit Societies recorded by the I.A.O.S. as in operation, 56 Societies, or 29 per cent., failed to furnish their statutory Return, as compared with 24 per cent in 1904 :

(c) The number of Credit Societies recorded as at work has declined by 74 during the past four years ;

(d) The books of the Registrar include 115 Credit Societies no longer recorded by the I.A.O.S. as in operation.

It is also worthy of note that while in the year 1911, 163 out of 193 Societies recorded as working were in a position to supply the I.A.O.S. with information as to the business transacted during the year, only 137 forwarded their Return to the Registrar. This would go to show that some Societies, although at work and with the information available, neglected to comply with the statutory obligation. In fact but for the trouble taken by the auditor of the I.A.O.S. it would seem as if this obligation would be almost universally disregarded. On the other hand, some Societies, we have ascertained, furnish their Return to the Registrar but supply no figures to the I.A.O.S. See paras. 509, 511.

Desirability of cancelling a large number of the Credit Societies now on the Register.

515. Your Committee were glad to learn of the Registrar's intention to take steps to cancel from the Friendly Societies' Register the large number of defunct Credit Societies in Ireland whose names now appear thereon. Such action would be of assistance rather than otherwise to the movement, and would enable its true position in regard to the number of Societies in actual operation to be much more readily ascertainable. Credit Societies which work satisfactorily and yet fail year after year, in spite of reminders, to comply with their legal obligation to furnish their Annual Returns, must be comparatively few in number.

We fully recognise the difficulties in some of the more backward parts of the country in finding competent Secretaries who appreciate their responsibility in this matter. The Secretary of the I.A.O.S. in his evidence stated :— See paras. 523-4.

"There is one Society that has never furnished a Report, yet we know that it is going on satisfactorily. The Chairman is an ex-Police Officer. He has been prosecuted time and again for failing to furnish a report. His Society was struck off by the Registrar, and still continues to do business. We keep that Society on our list, but we have no particulars regarding it. . . . R. A. Anderson 1787-9.

Q. "Mr. Miley stated he is going to enter into a campaign to stamp out some of these Societies ?

A. "I hope he will."

Such cases as this are probably not of frequent occurrence. Mr. Miley has informed us that there is sufficient evidence to satisfy him that of the Societies which failed to send in their Returns at least 106 did no business during the year 1911.

During the last five years the I.A.O.S. in their Annual Reports returned 50 Credit Societies as struck off the list ; but we are not aware in how many of these cases the action was reported to the Registrar of Friendly Societies. It appears that under the *Friendly Societies Act* the fact that a Society has not furnished its Annual Return to the Registrar is not considered a sufficient reason for the removal of its name from the Register, if during the year it had not been in active operation. If, on the contrary, it has been working but fails to furnish its Annual Return, this fact supplies, we understand, sufficient cause for its registration being cancelled. These considerations probably account for the retention on the Register of a large number of Societies which are not now—and many of which have never been—in active operation.*

INJURY CAUSED BY NEGLIGENT CUSTODY OF CONFIDENTIAL DOCUMENTS.

516. A serious defect in the working of many Credit Societies is the absence of any proper arrangements for the safe custody of the books, bonds, &c, and even of the cash on hands. It would be unreasonable to expect to find the business methods of commercial banking institutions in the case of these rural Societies ; but there is unquestionably much room for easily adopted improvements.

The matter may appear at first sight less important than it is in reality ; but carelessness in the custody of confidential documents and of cash must tell against the progress of a Society, tending as it does to arouse distrust in the minds both of borrowers

* We consider that 176 may be taken as the number of Credit Societies now in operation (see para. 299, and Map facing page 386.

Paras. 372 383.

and depositors. The ignorance and inexperience of Secretaries and Committees may sufficiently explain in most cases the existence of these lax methods, but this plea will not satisfy those potential members who can obtain in the neighbouring Post Office Savings Bank absolute security combined with greater secrecy, and who, to ensure these advantages, are willing to forego a small amount in interest. The difficulty of attracting deposits, a difficulty already sufficiently great, is rendered practically insurmountable if depositors feel that they have no guarantee that documents containing information in regard to their dealings with the Society will be treated by the Committee as strictly confidential. The Rule that "the proceedings with regard to loans at Committee Meetings shall be kept secret, and any member of Committee or officer of Society infringing this Rule shall be liable to immediate expulsion or dismissal"* is often rendered nugatory by the negligent custody of books and documents, even though the members of the Committee may themselves not be guilty of verbally disclosing any of the Society's private transactions. Adequate inspection and advice would do much to convince careless Committees of the injury done by thoughtless and hap-hazard methods of business.

Para. 485.

Evidence of Officers of the Department of Agriculture as to careless custody of Documents.

Para. 510.

517. Your Committee are in full agreement with the recommendations contained in the Report of the Department's Inspector above referred to:—

"Not infrequently the bank's books and documents such as members' application forms, bonds, &c., are kept in a slovenly, careless manner, and are left about so that some may be lost, or persued by those who have no right to do so; this should be remedied. Bonds should be kept filed in the order in which they become due, a slip of paper dividing each month, and those which are overdue should be kept separately.

"Although in a few cases, the Secretaries and Committees have been deliberately careless and lethargic, the probability is that many societies classed as 'unsatisfactory,' are in that position owing to the ignorance of the Committees as to their duties, and a general tendency on the part of both Committees and Secretaries to shirk work and responsibility."

1471.

We were informed by Mr. Mennell that as a result of his inspection of 103 Societies he had found that:

"The documents were usually kept in a press in the schoolroom... Very often these presses, I think, were not locked; but certainly the documents themselves were very often in a very muddled condition. There would be this year's and last year's documents and the year's before, mixed up together, which I thought was very unsatisfactory, because I could not understand a bond that was paid off being in existence at all. It seems a distinct danger that a bond that had been repaid should be in existence and in force; but it is not the practice in most cases apparently to hand back the bond when the loan is paid off, or cancel it."

This last mentioned practice, *i.e.*, the non-cancellation of repaid bonds, is one that should on no account be permitted. More frequent inspection during the early years of a Society would do much to prevent this careless and risky habit becoming formed.

4503.

518. Mr. Thomas Porter, who has also had personal experience in visiting Credit Societies on behalf of the Department, stated in his evidence:—

"It is most usual (for the Committee) to meet in the schoolhouse. That is suitable, but I do not think it is desirable that the meetings should be held in private houses. Still more objectionable is the holding of meetings in public houses. I remember, in one instance, where the Department had granted a loan to a Society, I wanted to look up certain documents belonging to the Society. I found the book lying in the bar and certain papers were hidden behind cushions and chairs. I would not like to say that is common, but I found that kind of thing. In private houses I have found papers stuck in bookshelves and lying about. I remember in one instance it was in a schoolmaster's house. The other members of the family, especially the female members, would no doubt, have some curiosity, and look through the papers to see what loans people were getting, and then this is tittle-tattled throughout the district. Everything should be kept thoroughly private. I have reported several times to the Department that I think this is a very great mistake. The mere fact that things are kept in this way conduces rather to give the Committee and Secretary an idea that the whole thing does not matter very much; but if they felt that these documents should be properly kept in a properly locked-up place, and that there must be a certain amount of order, I think it would put a different aspect on the thing altogether, and tend to make them feel that it is not a matter of such slight importance."

This witness explained that these observations applied to the bad cases which had come under his notice, and that all Credit Societies were not open to this charge.

* See Rule XII. (1), Appendix 22 to Minutes of Evidence.

A representative of the Wexford Co-operative Council also expressed to us his dissatisfaction with the existing system for the custody of books and cash. He said:—
 “The trouble at present with regard to our small Societies is that they have no place to keep money or accounts, or anything else. The books are kept by the Secretary in a corner of whatever living accommodation he has. Of course that sort of thing does not inspire much confidence.”

E. A. Johnson,
17,597.

PROVISION IN GERMAN SOCIETIES FOR THE CUSTODY OF BOOKS AND DOCUMENTS.

519. The instructions in the I.A.O.S. Rules for Credit Societies in regard to the custody of books and documents are confined to the general statement that the Secretary is to have charge of them.* The model Rules of the Raiffeisen Federation in Germany specify as one of the duties of the Secretary of a Society that he must as book-keeper and treasurer “keep with great care, in accordance with the resolutions of the directors, cash, securities, and other property of value, especially mortgage deeds and acknowledgments of indebtedness upon land, savings books, as well as books, documents, vouchers, and bonds of the association. . . . The Secretary is responsible to the association for the safe custody of the funds and punctual execution of the business entrusted to him. If he neglect his duties he is liable to the association for the resultant losses.”†

The Model Service Regulations of the Imperial Federation state that “the keeping of the books and cash is the business of the Secretary. He is answerable for the whole of the cash business, for the safe keeping and accounting for the cash balances, the securities entrusted to his keeping, bills, documents, account books, and papers of every kind.” The concluding paragraphs of these regulations are as follows:—

“The book and cash keeping must be conducted with careful observance of the regulations in operation therefor. It must be carried out according to the instructions issued by the Union.

“The director, and also the president, must take very special care that the books are always so kept and ordered that the whole of the business, as well as the position of the business and the assets, may be clearly visible from them at any time.

“The director and president are primarily responsible for the correct and careful carrying out of the aforementioned arrangements for control.

“The board of supervision must decide what securities, documents, &c., shall be kept under the joint key of the director and the secretary, or of the director and the president, as the case may be. The caution deed of the Secretary is to be kept in the charge of the president of the board of supervision.”‡

The Secretaries of Credit Societies in Germany set apart in most cases a room in their own house for the purposes of the Society, receiving in return an allowance in addition to their salaries.§ This practice would hardly be feasible in Ireland, save in exceptional cases; nor would the provision of an expensive safe, as in Germany, be necessary. A securely locked press should suffice, unless considerable sums of money are kept in hand, a practice which, as stated elsewhere, is in our opinion most unwise for these Societies. It would speedily disappear if our suggestion be adopted that all transactions of Credit Societies should be carried on by cheque, no cash being retained in the hands of the Secretary or Treasurer save for petty cash requirements.

Paras. 494, 540.

520. It is evident that the leaders of the co-operative movement in Germany, in this matter of the custody of books and documents, as in so many other matters, both of principle and of detail, referred to in our Report, have spared no pains to safeguard the affairs of the Societies by carefully drawn up rules and by well-organised inspection. We strongly recommend that in any new set of Rules issued for Irish Credit Societies, arrangements for the proper and confidential custody of the Society's books, papers, and cash in hand, be definitely provided for, as in the Model Articles of the German Federations. In the draft Rules submitted by us we have inserted provisions with this object in view.¶

PLACE OF TRANSACTION OF CREDIT SOCIETY'S BUSINESS.

521. In most cases Credit Societies in Ireland cannot afford to provide even the small rent of a suitable room for the transaction of their business. A very usual meeting place for the Committee appears to be the National School; this has some advantages, including that of being, as a rule, fairly central for the parish. But a special press with lock and

* See Rule XI. (b) (2). Appendix 22 to Minutes of Evidence.

† Appendices to *Report on Agricultural Credit and Co-operation in Germany*, p. 103.

‡ *Ibid.*, p. 121, 127.

§ *Ibid.*, p. 95.

¶ See Rule 51, p. 396, and p. 404.

key should be provided, and be used for no other purpose than the custody of the Society's books, documents and cash in hands; nor should the keeping of the key be entrusted to any person but the Secretary, Treasurer, or some specially authorised member of the Committee.

We believe, however, that there would be much to be gained by the provision, when at all possible, of a special room for the Society's use. Some of the better-off residents in the locality might philanthropically assist by providing such a room free of charge or at a nominal rent, if it be not found feasible to provide accommodation otherwise. But it would be undesirable that this favour should be conferred by a member of the Committee, save in very exceptional cases, for there are obvious objections to any business body being under considerable and permanent obligation to one of its members. Such a course might tend—in spite of the principle “one man, one vote,”—to give such member an undue influence in the counsels of the Society, a state of affairs detrimental to the true co-operative spirit.

The increasing care taken by Joint Stock Banks to erect tasteful and often expensive buildings in prominent positions in the various towns is mainly due to their realisation of the fact that so apparently secondary a matter as the appearance of the Bank's office has its influence in attracting customers. Credit Societies might, we believe, with advantage follow, *sed longo intervallo*, in the steps of the large banking institutions by giving as businesslike and tidy appearance as possible to the room where the business is transacted. We in no way suggest that the provision of a special office should, like the finding of a competent Secretary, be a condition precedent to the establishment of a Credit Society, but we think that too little importance has in the past been attached to this particular matter.

Para. 542.

CONCLUSIONS.

522. Our conclusions and recommendations in regard to the Registration of Societies, their Annual Returns, Account Books, and Custody of Documents may be summarised as follows :—

Paras. 504–7.

(a) Considerable numbers of Credit Societies have been registered with, in our opinion, no reasonable prospect of success. This premature formation of Societies has resulted in there now being about 130 Societies on the Register of Friendly Societies which are not in operation, some of them having never even commenced to work. In recent years greater care has been taken in this matter by the I.A.O.S. organisers.

Para. 515.

(b) Steps should be taken in the near future to cancel the registration of all Societies not in operation. No new Societies should be registered unless at least 40 solvent intending members pay the entrance fee in the case of an unlimited liability Society, or pay the call upon their share in a limited liability Society.

Paras. 508–511.

(c) The existing forms of Annual Return and of Account Books require modifications.

Paras. 512–514.

(d) The failure of a large number of Credit Societies to comply with their statutory obligation to furnish an Annual Return to the Registrar of Friendly Societies is most unsatisfactory, over 55 per cent. of the Societies on the Register, and almost 30 per cent. of those reported as in actual operation neglecting to do so in the year 1911. Even those Societies which furnished their Returns had them filled up in most cases by the Auditor of the I.A.O.S.

Paras. 516–8.

(e) In many Credit Societies no arrangements exist for the proper custody of confidential books and papers. Such negligent methods tend seriously to lessen the confidence of borrowers and depositors, and render largely nugatory the Rule as to secrecy on the part of the Committee.

Paras. 519–520.

(f) Each Credit Society should have a securely locked press available for the keeping of all documents and cash in hands, the custody of the key being entrusted only to the Secretary, Treasurer, or a specially authorised member of the Committee.

Para. 521.

Where possible, a special room or office should be provided for the transaction of the Society's business.

(h) THE SECRETARYSHIP OF CREDIT SOCIETIES.

So important do we consider the question of the Secretaryship of a Credit Society that we think it well to deal with it in a separate short Section of our Report.

Success or failure of a Society depends largely on the Secretary.

523. The finding of a suitable person to fill the position of Secretary to a Credit Society is not an easy task, especially in those poorer districts where the benefits of co-operative credit are most required. The duties are of a responsible and often of a troublesome nature, while the financial remuneration (where such is given) is comparatively trifling.

On the other hand, the success or failure of the organisation depends largely upon the competence of the Secretary for his post. We have had ample confirmation of this fact from the evidence received on behalf of Credit Societies in all parts of the country. The satisfactory condition of some of the most successful Societies has undoubtedly been mainly due to the time and trouble devoted to his duties by the Secretary; while in other cases, where Societies have been in a state of stagnation for years, or have ceased to exist, this disappointing result has often been due to the apathy, incompetence, and in some instances, the dishonesty of the Secretary. In too many cases the Committees of Management are prone to leave almost the entire responsibility in the hands of the Secretary, especially if he has proved himself a capable officer.

Rules of Irish Credit Societies dealing with Secretaryship.

524. The Rules for Credit Societies, issued by the I.A.O.S., in dealing with the appointment and duties of Secretary, lay down that:—

“The Committee shall appoint a Secretary and shall have power to fix some remuneration for his services. If he be a paid officer, he shall not be a member either of the Committee or of the Council, and in no case shall he have a vote as to the granting of any loan. When appointed by the Committee, he shall continue in his position subject to their approval, up to the first General Meeting. On his appointment being then approved, he shall occupy his position until determined by one month's notice, either given by himself or by the Committee.

After detailing the Secretary's duties, the Rules proceed:—

“If the Secretary be an honorary officer, the duties here stated may be shared with certain members of the Committee. The Committee may sanction the appointment of a clerical assistant for some of the stated work, and the expenses shall be defrayed from the funds of the Society. The Committee may immediately suspend or dismiss the Secretary for any irregularity in the performance of his duties. On receiving notice of suspension or of dismissal, the Secretary shall have the right of appeal to a Special General Meeting of the members, which, upon his request, must be convened.”*

It will be seen that under these Rules power is given to the Committee to fix some remuneration for the services of the Secretary, but the matter is left entirely to their discretion. No arrangement is made for the Secretary furnishing security, even if he be a paid officer. In the case of the Treasurer, also, the supplying of security is not made compulsory.

Rules of German Raiffeisen Federation dealing with Secretaryship.

525. It is of interest to quote from that portion of the Model Articles of Association issued by the Raiffeisen Federation of Germany which deals with the appointment and duties of the Secretary of a Credit Society, and the guarantee to be furnished by him for the proper fulfilment of his duties.

“The Secretary shall be elected by the meeting of members for four years; the meeting is bound to follow the proposal of the committee and the board of supervision. The Secretary may not be a member of the Committee of Management or of the board of supervision.

“The Secretary receives remuneration for his trouble; the amount is fixed by the board of supervision on the proposal of the Committee of Management, but must not be estimated according to profits or the turnover of the association.

* See Rule XI., Appendix 22 to Minutes of Evidence.

His duties are set forth as follows :—

“ The Secretary must, as book-keeper and treasurer :—

- (1) keep the books and lists as prescribed in the service instructions ;
- (2) follow the instructions in receiving and making payments ;
- (3) keep with great care, in accordance with the resolutions of the directors, cash, securities, and other property of value, especially mortgage deeds and acknowledgments of indebtedness upon land, savings books, as well as books, documents, vouchers, and bonds of the association ;
- (4) draw up after the end of the business year the draft of the annual balance sheet and accounts, and present it with the vouchers duly ordered to the chairman of the Committee of Management not later than April 1st.

The Secretary should be present at the meetings of the Committee of Management with deliberative voice. In other matters he has only to carry out the resolutions of the Committee. Other details of his rights and duties are regulated by the instructions of service and by the written agreement made with him through the Committee.

The Secretary is responsible to the association for the safe custody of the funds and the punctual execution of the business entrusted to him. If he neglect his duties he is liable to the association for the resultant losses. The Committee, or the Board, are authorised in their discretion to relieve him temporarily of his office until the decision of the meeting of members, to be called at once, and to take provisionally the necessary steps for the continuance of business.

As guarantee for the fulfilment of his duties, the Secretary must find at least one solvent surety or deposit adequate securities. The custody of the security lies with the Committee, or in case the Committee have undertaken to be surety, with the board of supervision.”*

Superiority of the Raiffeisen Federation Rules to the Irish Rules.

526. An important difference between the position of Secretary to a Credit Society in Ireland and in Germany is that in the latter country this officer acts both as a Secretary and Treasurer, while in Ireland these two offices are separate. The title usually attached to the position in Germany is “ Accountant ” (*Rendant, Rechner*).

Para. 524

The I.A.O.S. Rules make no mention of the furnishing of security by the Secretary, and even in the case of the Treasurer leave this matter of guarantee to the discretion of the Annual General Meeting. On the other hand, the Raiffeisen Federation Articles (see the final paragraph of the above-quoted extract) insist upon the Secretary finding at least one solvent surety, or depositing adequate securities.

A further regulation contained in the German but not in the Irish Rules is that the remuneration of the Secretary must not be estimated according to the profits or the turnover of the Association. The provisions of the Raiffeisen Articles seem in these important matters to be decidedly preferable to the Irish Rules.

Again, under the Irish Rules, a Secretary, if not paid, may be a member of the Committee or of the Council of Supervision, but without a vote in the granting of loans. The Raiffeisen Articles definitely preclude the Secretary from being a member of the Committee of Management or of the Board of Supervision, although he may be present and take part in the discussions, without a right to vote ; as a matter of practice, he is usually invited to be present at the meetings of the Committee.

Rules of German Imperial Federation dealing with Secretaryship.

527. The Model Articles of Association issued by the Imperial Federation of German Co-operative Societies differ in some respects from those published by the Raiffeisen Federation. The Imperial Federation Articles, for instance, include the Secretary as a member of the Committee :

“ The Secretary shall be elected for an indefinite period with six months’ notice, either on his part or that of the board of supervision, of termination of his appointment.

“ The Secretary shall receive a salary, the amount of which is to be determined by the board of supervision. The other members of the Committee exercise their office gratuitously. In special cases, however, remuneration, to be settled by the Board of Supervision, may be granted to them in proportion to their trouble.

“ The members of the Committee must exercise the prudence of an ordinary business man.

“ Members who neglect their duty are responsible jointly and severally for resultant loss.”†

The Model Service Regulations, issued by the Imperial Federation, give in detail the duties of the Secretary (Book and Cash Keeper) of a Credit Society. In these Regulations it is stated that “ the Secretary is liable to the Society to the full extent of his property for all loss and damage brought upon it through his own fault and especially for all deficits

* Appendices to *Report on Agricultural Credit and Co-operation in Germany*, p. 103.

† *Ibid.*, p. 110.

arising through or out of the keeping of the books, and, for the better security of the Society, he shall furnish caution money, the amount of which shall be fixed by the board of supervision with the approval of the committee.”*

Reasons for and against the Secretary being a member of Committee.

528. In referring to the difference between the Rules of the Raiffeisen and of the Imperial Federations in regard to the Secretary being a member or not of the Committee, Mr. Cahill states : “ The presence of the secretary on the Committee has the advantage of convenience as regards routine work ; every receipt and document requiring the signature of two members of the Committee (in many cases as already noted the articles require three), three persons (secretary and two of the Committee) or even four (secretary and three members of the Committee) may thus be obliged to participate in such a small transaction as a receipt for the deposit of a few shillings. In practice it is arranged that the secretary gives a provisional receipt, the necessary signatures being afterwards secured. Apart from the question of convenience it is also considered that the feeling of responsibility and the prestige of the secretary in the eyes of the members are increased by his inclusion in the Committee. It is objected on the other hand that the Committee is liable to be less free in its action towards borrowers and others, and in its supervision of the details of the routine business when one of their number is thus employed.”†

Rules issued by Board of Agriculture and Fisheries ; question of Secretaryship.

529. The Model Rules for Co-operative Credit Societies (based on the principle of limited liability) issued by the Board of Agriculture and Fisheries, in defining the duties of the Secretary, lay down that the Secretary “ shall, on all occasions in the execution of his office, act under the superintendence, control and direction of the Committee, and shall, unless exempted by resolution of a General Meeting, give security in such amount as a General Meeting may resolve, in the manner provided by Section 47 of the Act. He may receive such remuneration as a general meeting may determine.” Under these Rules security is also required from the Treasurer, unless similarly exempted. He may receive such remuneration as the General Meeting may determine.

Desirability of Security being required from Secretary.

530. In your Committee’s opinion it is very desirable that security of a moderate amount should be required from the Secretary of a Credit Society for the proper fulfilment of his duties. We have met with cases where, owing to the carelessness or dishonesty of the Secretary, Societies have suffered losses, but have had no redress as against the defaulter. The furnishing of security would do much to prevent such occurrences. The amount of security might be fixed at say five times the annual remuneration paid to the Secretary (£25 security where £5 is paid, and so on). The cost of the bond should be defrayed by the Committee. Security could not be expected from an unpaid officer, but if our proposal be carried out, all Secretaries would receive some remuneration.

Views of I.A.O.S. in favour of payment of Secretary.

531. From time to time this question of the remuneration of Secretaries of Credit Societies has been referred to in the Annual Reports of the I.A.O.S., usually in connection with the difficulty experienced by many Societies, owing to their comparatively small turnover and profits, in providing funds for such remuneration. In their Report for 1904 the I.A.O.S. stated :

“ The question of payment of Secretaries comes up frequently. During the first year or two, when the business is usually light, a Secretary will generally be found to do the work gratuitously ; but if the Society grows as it should grow, a very heavy tax is placed on the spare time of the officer, and the matter has eventually to be faced. The salary allowed could never be very large, and Committees should not allow it to eat up all the profit and thereby deplete the reserve fund.. It is satisfactory to note, that in the vast majority of Societies, the Secretaries make no claim for their services, and this is true of the largest agricultural credit Society in Ireland, Malin, where the Secretary has persistently refused to accept any pecuniary reward for his services, though the turnover of the Society is nearly £2,000, and the recording of the small loan transactions must entail a very great labour on him.”

In subsequent Annual Reports the subject of payment of Secretaries is further dealt with.

* *Report on Agricultural Credit and Co-operation in Germany*, Appendices, p. 121.

† *Ibid*, p. 93.

Weight of Evidence supports remuneration of Secretary.

532. The majority of the witnesses who spoke on this matter at our sittings favoured the giving of some remuneration to Secretaries of Credit Societies, but preferred that this payment should take the form of a bonus or honorarium, rather than of a salary. Mr. Anderson, Secretary of the I.A.O.S., stated :

1653

"In some cases they are paid a small honorarium for their services ; and the Committee must remember that £2 or £3 to a poor man living in a congested district is an important item. It has been suggested that they should be all paid. I object, and for this reason, that the minute you begin to pay people for doing these services from some outside source, they will measure the work they will do by the money ; but if they get an honorarium, they feel that it is an appreciation of their services rendered to the community, and I would be very sorry to see any change made. In some cases no payment whatever is made to the Secretary, and I cannot see that the services rendered by the Secretaries are any worse on that account. The kind of men who give their services are not looking out for money : they do not do it for the sake of the money, but to help the people."

Mr. Swain, Auditor for the I.A.O.S., in dealing with this matter, said :—

4660

"Where the bank is a large one and the applications and loans numerous, it is plain that the initial work of issuing and the subsequent collection, either by instalment or total repayment, takes a good deal of a man's time, and in many cases the position is purely honorary. A number are now, however, paid, but I don't know of one case where a Secretary is in receipt of more than £10 per annum for his services. In the majority of cases, it runs from £3 to £5, and in others a bonus or honorarium is voted at the annual meeting."

J. Ryan, 17,960

An ex-Chairman of a Credit Society informed us that in his opinion "an Honorary Secretary could not be firm enough. He has not backbone enough to collect the money. People have to know that it is a business of his, and that he has remuneration for it, and is not doing it gratis. He would have more power in case he had a salary."

M. A. Lyons, 9898
W. J. D. Walker, 4410
J. Bohan, 11,512
Rev. J. R. Digges, 16,771-2
B. T. Mennell, 1448
T. Gannon, 3631
D. Sweeney, 8280
P. Collins, 9295
T. Crowe, 10194
R. O'Rourke, 12,338
P. C. O'Donoghue, 17,019
W. J. Lambert, 17,908
L. A. Bryan, 18,034
E. A. Johnson, 17,593, etc.

533. There is not space to refer to the views on this particular point expressed by members of Credit Societies throughout the country. Almost without exception these witnesses advocated some form of remuneration, on the ground that it was unreasonable to expect a Secretary to devote a considerable amount of time and attention to the work of a Society without any monetary compensation. Those Secretaries who have undertaken these often troublesome duties from the laudable desire to benefit their neighbours—in several cases refusing the bonus offered to them—are deserving of the highest praise.

In his evidence before the Thrift and Credit Banks Bill Committee of the House of Lords, Sir Horace Plunkett advocated payment being given to the Secretaries of Credit Societies.* The late Dr. Haas, the German co-operative leader, in the course of a memorandum written some years ago furnishing suggestions in regard to co-operative credit in Ireland, said : "I believe that in the long run you will not be able to maintain the fine principle, so often dwelt upon in the annual reports of the Irish Agricultural Organisation Society, of the entirely gratuitous services of the managing committees, and that you will have to provide remuneration at least for the actual conductor of the business (secretary and accountant) for his constantly increasing trouble."†

Reasons for remuneration of Secretary being kept at a very moderate figure.

534. Perhaps the most important factor in this question is the danger lest the attaching of any considerable salary to the post of Secretary should lead to competition for the position, accompanied by the usual canvassing on the part of the various candidates, with the result that an unsuitable person might be entrusted with the duties. Such an appointment would in the majority of cases wreck all prospect of the successful working of the Society, for even a careful Committee cannot keep the organisation on right lines, if the chief executive officer, who is naturally most in touch with the work, is incompetent or neglectful.

With a view to diminishing this risk, your Committee strongly recommend that a very moderate sum should be given as a bonus to the Secretary, even when the profits for the year might easily admit of a larger amount being granted. The importance of gradually building up a reserve Fund from the annual profits is another reason for the Secretary's remuneration being kept at a comparatively small figure. Members of Committees have expressed to us a preference for a paid Secretary, as such an officer would probably be more amenable to the instructions of the Committee than if he held a purely honorary

* *Report of the Select Committee of the House of Lords on the Thrift and Credit Banks Bill* [96-1910], pp. 50-2.

† "Notes on Agricultural Co-operation and Co-operative Credit in Germany," by Mr. H. de F. Montgomery, D.L., pp. 40-41.

post. We have also had evidence going to show that many members of Credit Societies would prefer that some payment should be made to their Secretary, in order to give a more business-like appearance to the organisation.

Rates of remuneration to Secretaries of Credit Societies in Germany.

535. Although owing to differing conditions there can be no close analogy between the rates paid to the Secretaries of German Credit Societies and the rates which would be suitable in Ireland, it is instructive to note the practice of German Societies in this matter. "In the majority of Societies the Secretary is remunerated for his work, the amount of his remuneration being determined by the Board of Supervision on the recommendation of the Committee of Management. It may be fixed, or it may be reckoned as a percentage of the total business done, of the payments or of the disbursements or of the gross or net profits. Fixed payments predominate, and the model articles drawn up by a large number of Unions for the guidance of their affiliated societies provide that secretaries may not be paid according to either business done or profits. By the former method of payment, any temptation to increase the book turnover or to seek profits by unwise transactions is removed. A common standard adopted in determining the amount of the remuneration is to take the total number of accounts in the ledger or the number of depositors' accounts alone, and to allow a fixed sum per account. The statement of any general average, or predominant range of salaries paid to secretaries of German rural credit societies, would be misleading unless accompanied by a large amount of explanation or reservation which would render the statement of little value. The amounts are, however, on the whole small. In ordinary societies with from 80 to 120 members, the secretary will receive from £15 to £40 per annum according to the volume of business, the number of members, the capacity of the individual secretary, the generosity of the members, and other circumstances."*

In 1905 the average cost of management in 12,660 Societies in Germany amounted to £20 6s., about two-thirds of this amount being accounted for by the salary of the Secretary and rent of office. In 1909 the average cost had risen to £29 16s. (in 14,171 societies), and in 1910 to £33 1s. (in 14,909 societies). It must be remembered that in about two-thirds of the credit societies of Germany one of the duties of the Secretary is to look after the supply of agricultural requisites for the members, a task which none of the secretaries of Credit Societies in Ireland have to perform.

In Pomerania, where limited liability Credit Societies comprise three-fourths of the total number, and where these societies do not as a rule purchase agricultural requisites to any considerable extent, leaving this business to the agricultural Supply Societies, the remuneration to secretaries of Credit Societies is on a much smaller scale. Other factors tending to this result in Pomerania are the smaller membership of Societies (the average was 65 members in the year 1910, as compared with 98 for all Germany) and the comparative thinness of population, which naturally diminishes the non-member deposit business in Credit Societies.

In over half of 376 Pomeranian Societies, the remuneration paid in 1911 did not exceed £10 (in 33 cases no payment was made), while in two-thirds of the Societies the Secretary's remuneration did not exceed £15. According to a statement of the General Secretary of the Imperial Federation, the average salary paid in 1902 to the Secretaries of 2,071 Credit Societies in the Bavarian Union was only £5 11s., and to the Secretaries of 140 Credit Societies of the Schleswig-Holstein Union, £7 16s.†

Resolution of Austrian Co-operative Congress, 1910, favouring payment of Secretaries.

536. The following resolution was passed at the Second Congress of the Austrian Agricultural Co-operative Societies held in Vienna, September, 1910 :—"The Congress is of opinion that the cashiers and book-keepers of the Raiffeisen Banks should receive a sum in relation to the services they render, and that the compensating of such officers habitually occupied with the business of the Banks in question, a work occasioning them some expense, by means of a sum agreed upon for the year, would not be in contradiction to the principles of the Raiffeisen Banks."‡

* *Report on Agricultural Credit and Co-operation in Germany*, p. 94

† *Ibid.* pp. 94-5.

‡ See *Bulletin of the Bureau of Economic and Social Intelligence*, International Institute of Agriculture, Rome. No. 2, October-November, 1910, p. 38.

Limited Funds for Remuneration of Secretaries of Irish Credit Societies.

537. During our Inquiry we have found that it is unusual for the Secretary of a Credit Society in Ireland to receive so large a sum as £10 or £12 as a bonus, although this amount is sometimes given; but grants of from £3 to £5 are fairly frequent. In some cases, we were informed, the Secretary's remuneration is fixed at a percentage (usually 1 or 1½ per cent.) of the business done. This basis of calculation we consider on the whole undesirable; there is the possible danger of its tempting the secretary to encourage unsound lending business with a view to increasing the turn-over, and thus augmenting his own remuneration. The fixed payments which predominate on the Continent are in our opinion much safer.

From the figures published in the Annual Reports of the I.A.O.S., showing the expenses and net profits for each Society, it is apparent that, save in rare cases where the number of loans granted in the year amount to a comparatively large sum, the funds available for furnishing any remuneration to the Secretary are exceedingly limited, especially when the money—largely obtained on overdraft from a Joint Stock Bank or from depositors at 4 per cent.—is lent to borrowers at only 5 per cent. Even a turnover of £1,200 per annum would, at these rates, bring in an annual profit of only £12 to cover all expenses. If, however, the rates of interest which your Committee propose were to be adopted, *i.e.*, if 3½ per cent. were allowed on deposits and a charge of 6¼ per cent. made to borrowers, the same turnover would bring in almost three times the present profit.

Paras. 385, 500

Some suggested rates of remuneration.

Para. 356

538. In the Section dealing with the principle of liability, we have seen that in the case of a Credit Society with a lending capital of £1,200, made up of £900 in deposits, £275 as a Bank overdraft, and £25 in paid up capital, and with an average turnover of £1,200, the interest paid by the Society to depositors (at the rate of 3½ per cent.), would be £30, and to the Joint Stock Bank (at 4 per cent.) £11, or a total of £41. By lending at 6¼ per cent. this Society would earn a sum of £75, leaving an annual net profit of £34. Of this amount we would suggest that £10 or £12 be paid to the Secretary. This would be approximately 1 per cent. on the business done, although the turnover should not, as already stated, be the definite basis of calculation. The balance, after defraying other incidental expenses for stationery, audit fee, &c., should be carried to reserve. Even if all the funds were not lent out a fair profit would still be made. If the Society were on the basis of unlimited liability, entrance fees at one shilling per head would take the place *pro tanto* of the paid-up capital in above illustration.

Paras. 499-500

In Societies with a smaller capital and turnover the remuneration to the Secretary would naturally be less. But a Society with a turnover of £600, and a lending capital of approximately the same amount, should be in a position to pay, say, £6 to the Secretary; even with a turnover of only £400, the profit should enable £3 or £4 to be paid. We question the wisdom of establishing any Credit Society in a district where there is not a fair prospect of the annual credit requirements of the borrowers amounting to at least £400 or £500. When the turnover, as in so many cases at present, is little over £100 or £200, the payment even of a trifling sum to the Secretary is out of the question. In ninety-eight Credit Societies, out of 163 furnishing Returns for the year 1911, the total loans during the year amounted to less than £300, and in sixty-nine of these cases to less than £200. In sixty per cent., therefore, of the Societies, the turnover did not amount to £300. In twenty-nine Societies it even fell below £100. Nineteen Societies made a loss on the year's working in 1911, and twenty-four in 1910. In many of these cases it is not so much a question of whether the Secretary should receive any remuneration, as whether the Society should continue its struggle for existence on such a trifling annual turnover.

Paras. 450-477

Elsewhere we have dealt with the proposal that trading powers should be conferred upon Credit Societies—partly with a view to providing increased funds for the payment of Secretaries and other expenses; and have given our reasons for considering that the disadvantages of the scheme outweigh any probable benefits.

Necessity for the Instruction of Secretary in his duties.

R. A. Anderson,
1865
B. T. Mennell,
1440

539. Several witnesses emphasised the desirability of instructing the Secretary of a Credit Society, before he takes up his duties, in the proper methods of keeping the books and accounts of the Society, and in similar matters. The first six months of the existence of a

Society are in some respects the most critical, and every effort should be made to see that both the Secretaries and Committees start their work on sound lines. It is at this period that instruction and visits from an Organiser or Inspector would be productive of most good. To start a Society with an inexperienced Secretary, and to allow the institution to remain without inspection and instruction during the initial period, is certain to lead to the growth of defective methods of working, and merely courts disaster. The importance attached in Germany to this subject may be seen from the steps taken by the Imperial Federation in 1904 to found a Training School for co-operative officials, with six months' courses of instruction in such subjects as the principles of co-operation, book-keeping, auditing, banking and credit, &c. Short courses of instruction are also held on special subjects for officials already engaged in co-operative work.*

In the Report furnished to the Department in 1910 upon the condition of 103 Credit Societies holding loans from the Department, the question of the secretaryship of these Societies was dealt with as follows :—

“ The success of a bank largely depends on the Secretary. Of 103 banks reported on by Mr. Mennell, the Secretary's work is stated to be satisfactory in eighty cases, and not so in twenty-three cases. It is often most difficult to get a suitable man to act as Secretary. The position is frequently filled by a schoolmaster ; this sometimes is unsatisfactory, as the schoolmaster objects to being associated with legal proceedings for the recovery of loans overdue. Secretaries are very seldom paid, therefore often appear to grudge the time spent on their work. Often the Secretary is so deficient in knowledge of book-keeping and lacking in business knowledge that he requires instruction to enable him to keep the books properly and correctly to fill bonds, &c. It is essential that when a new bank is organised the Secretary should receive several visits from an Organiser, who should most carefully instruct him in his duties. It would generally be better if the Secretary received a small salary ; if the profits on loans do not permit of this, a special charge of, say, 1*d.* in the £ on each loan might be made to provide funds for the purpose. The Secretary frequently neglects to keep the cash book written up to date or to post the ledger accounts. A not uncommon practice is that of writing up the books from rough memoranda ; this tends to inaccuracy.”

Undesirability of retention of Cash in hands of Secretary.

540. Another important matter to which our attention was drawn by several witnesses was the extreme undesirability of allowing cash to remain in the hands of the Secretary of a Society. Some illustrations were furnished to us of the great risks attached to such a course ; we have space, however, to quote only one.

“ The temptation to the Treasurer or Secretary to hold money over is very serious. . . . We have one instance where the Department had endeavoured to get a Society that was working badly to pay up the loan. The Secretary of that Society wrote repeatedly to the Department to say that he could not get the borrowers to pay up, and he gave us the names of the men and the amounts due. He said he could not get the money out of them. He also pointed out that the Committee did not like to take action and prosecute the borrowers. Eventually I went down to the district. I found that the men had paid their money long ago, and did not owe any money. The Secretary had the money the whole time, and this sort of thing was going on for eighteen months. T. Porter, 4611-15

Q. “ Was that due to ignorance of the Secretary ? A. No ; he had simply kept the money for his own purposes. . . . I think if the Committee do their work properly, the Secretary should not have any money on hands. If they do their work properly, it is absolutely impossible for the Secretary or the Treasurer to misappropriate any money.”

There are several good reasons for carrying out the transactions of a Society, as far as possible, by means of cheques on the nearest Joint Stock Bank ; one of the chief advantages of this system is the removal of the temptation to a Secretary temporarily to utilise a portion of the funds in hands for personal purposes. Also, few of the Societies have provided, or are in a position to provide, a safe for the keeping of cash in hands. The purchase of a safe, we may add, constitutes one of the heaviest items of expense (usually from £15 to £30) in the case of Credit Societies in Germany.† For the Secretary to keep considerable sums of money in a cupboard or similar receptacle in his own residence or in a schoolhouse, &c., is both an unbusinesslike and an unsafe proceeding, although of frequent occurrence. For this and other reasons, we have no hesitation in recommending that, save for petty cash to meet any necessary current expenditure on postage, stationery, &c., no funds should be retained in the hands of the Secretary, but that incoming moneys should be lodged by the Treasurer to the credit of the Society's current account in the Joint Stock Bank at the earliest opportunity. Paras. 517-520

The legal difficulties attached to the placing of the funds of Credit Societies on deposit in Joint Stock Banks under existing Acts of Parliament are dealt with elsewhere in our Report. Paras. 442-5

* Report on Agricultural Credit and Co-operation in Germany, p. 240.

† Ibid., p. 95.

Occupations of Secretaries.

541. We have found that in a large number of cases the National School teacher of the district acts as Secretary of the local Credit Society, and many of them have proved very efficient. In view of the importance of obtaining a competent Secretary, who has some adequate knowledge of the keeping of accounts, the field of choice is naturally at times rather limited. This is not, however, a circumstance peculiar to Ireland. We notice, for instance, that in Pomerania, 154 out of 372 Secretaries of Credit Societies in the year 1910 were teachers; while in Silesia, 287 out of 722 Secretaries were similarly teachers. In 1911, 425 of the 2,160 Societies of the Bavarian National Union had teachers as their Secretaries. In recent years, however, in Germany the proportion of Secretaries who are land-holders is stated to be increasing.*

Evidence has been given us to the effect that in Ireland farmers have in many cases proved themselves to be capable Secretaries. One witness stated:—"When I find farmers as Secretaries, I think they make the most satisfactory Secretaries, because usually they do the work as they had been directed. They keep the books up-to-date, and keep the entries as they were told, and I find the books correctly kept, and I think myself that the intelligent farmer is the right man to act as Secretary for his fellow-farmers. He is quite in an independent position." Another witness said: "It struck me as remarkable that the best banks that I happened to come across—those that were working best—were those that had farmers as Secretaries, and I am quite satisfied that this is the best way, if you can get the right man, and I think the right man can be got in most districts."

Although some evidence was given to us in favour of young women acting as Secretaries, there was considerable difference of opinion on the point. We are inclined to think that, on the whole, save in very exceptional cases, the balance of advantage is in favour of a male Secretary.

Society should not be started unless competent Secretary be available.

542. The selection of a suitable Secretary for a Society is a matter which rests entirely with the members of the local Committee, subject to the approval of the General Meeting. It is impossible to over-emphasise the extreme importance of a competent person being selected for the position. It would be much wiser, in our view, to postpone, or even relinquish altogether, the project for the establishment of a Society than to start it with an unsatisfactory Secretary. The aid of a capable and influential Chairman is also invaluable. The words of the experienced General Secretary of the Belgian League of Peasants on this subject are of much weight.

"Before deciding," he says, "on the creation of such a bank we must be quite certain that we are in a position to intrust the functions of president and of cashier to persons who have those qualities which are quite indispensable—that is to say, we must discover if there are to be found in the community two people who present all the qualities which are desirable for the fulfilment of these two important functions. . . . The president and cashier must enjoy the entire confidence of their fellow-citizens and must have proved by their previous performances that they do not live entirely for themselves but are willing to consecrate a certain part of their time to their neighbours. More than this, they must have intelligence, and they must know through and through, in a practical manner, the habits and needs of the rural classes; a good elementary education is therefore evidently necessary. The cashier must give some security in order to insure that he will carry on his business properly. As far as is possible the president and cashier ought not to live too far apart from one another. What is one to do if one does not find people having the right qualities to act as president and cashier in a community? In this case our advice, given very emphatically, is to postpone the establishment of a rural bank until a later date. It is better not to have a bank at all than to have one which is badly administered. Without any doubt a badly administered savings and loan bank will do more harm than good. It will furnish its members with opportunities for incurring new debts. It will not in any way fight against usury, and it will tend to discourage well-administered banks, which are giving excellent results."†

Union of Secretaryship and Treasurership.

543. It is possible that in some districts the positions of Secretary and Treasurer to a Credit Society might with advantage be united in one person, as in the case of most of the

* *Ibid.*, pp. 95-6.

† *Agricultural Co-operation and Rural Credit in Europe*. Senate Document, 214, p. 492.

B. T. Mennell,
1438

T. Porter, 4607

R. A. Anderson,
1660
G. Russell, 1941

W. J. D. Walker,
4418-20, 4463
A. Swain, 4654
T. J. O'Reilly,
5640, etc.

German Societies, where the Secretary is both Book-keeper and Treasurer. Such a course would obviate the necessity for the Secretary constantly handing over sums of money, as they are received, to the Treasurer for lodgment in the Joint Stock Bank, as such lodgments could then be made directly by the Secretary himself.

On the other hand, the position of Treasurer frequently affords to a Society the opportunity of appointing some influential person in the district, whose practical aid and sympathy would be of much assistance to the Committee. The present I.A.O.S. Model Rules provide that "the Treasurer may also hold the position of Secretary, if the latter office is an honorary one." In one or two cases we found that this plan had been adopted. Questions of detail like this must be left to the decision of the local Committee; but we think it well to point out, as worthy of consideration, the possible advantage to be gained in some instances by a union of the two offices. T. Gannon, 3608 a

CONCLUSIONS.

544. Our views and recommendations in regard to the Secretaryship of Credit Societies may be summarised as follows:—

(a) The success or failure of a Society depends to a very large extent on the competence, energy, and character of the Secretary. Unless this officer has a reputation for trustworthiness and discretion, the Society will not win the confidence of members and depositors. No effort therefore should be spared by Committees in finding a suitable person—a task admittedly of considerable difficulty in some districts. It would be preferable to abandon the formation of a Credit Society altogether than to proceed with an incompetent or unreliable person as Secretary, or one who took little or no real interest in the work. Paras. 523, 541-2

(b) Some remuneration in the form of a bonus should be paid to the Secretary for his time and trouble, but this should be very moderate in amount (never exceeding, say, £10 or £12 per annum, save in exceptionally large Societies) so as to prevent competition for the position by unsuitable persons. Such remuneration should be regarded as a mark of appreciation rather than as a salary, and should not be calculated at a fixed percentage of the turnover of the Society. Paras. 531-8

(c) The Secretary should in all cases be required, as in the German Rules, to furnish security for the proper discharge of his duties. This security might be calculated at five times the annual remuneration paid. Paras. 525-530

(d) As little cash as possible should remain at any time in the Secretary's hands, all lending transactions being carried on, as far as possible, by means of cheques on the nearest Joint Stock Bank. Para 540

(e) A Secretary before entering upon his duties should receive some instruction in the best methods of keeping his accounts and books, and should be assisted by special inspection and supervision in the first years of the Society. Para. 539

(j.) ADVANCES FROM STATE FUNDS TO CO-OPERATIVE CREDIT SOCIETIES.

An important subject which has from the earliest years of the co-operative credit movement given rise to considerable discussion, and at times to wide cleavages of opinion in various countries, is that of the advisability or otherwise of providing rural credit Societies with capital by means of advances, direct or indirect, from State funds. It will conduce to clearness in the treatment of a rather complicated problem if we deal with the reasons for and against State financial aid separately from the allied but distinct question of how far State intervention may be desirable for the purpose of seeing that satisfactory provision is made for the audit and supervision of the Societies.

See paras.
599-651

DISCUSSION ON STATE AID AT CONGRESS OF THE INTERNATIONAL CO-OPERATIVE ALLIANCE, 1904.

545. A most exhaustive discussion upon the whole subject of State aid to co-operation took place at the meeting of the Sixth Congress of the International Co-operative Alliance, held at Buda-Pest in September, 1904.* The various arguments in favour of and against subventions from the State to Co-operative Societies, including Co-operative Credit Societies, were ably put forward by their respective supporters. Those who advocated financial assistance being accepted from the State argued that such initial pecuniary assistance to Co-operative Societies was often necessary to promote their creation and to encourage them in their early years; that want of sufficient capital from other sources would often prevent Co-operative Societies coming into being; that without such aid many Societies now flourishing would not have been in existence; and that State aid is practised in many countries, such as Germany, France and Austria, where co-operation is most successful, being indeed one of the chief factors in that success. The supporters of State grants, however, admitted that such aid should not degenerate into permanent assistance, since that would prevent co-operative institutions from acquiring vitality of their own; that it should come to an end when the Societies assisted were able to subsist by their own strength; that it should not injure any other interest entitled to consideration; and that it should respect the self-government of co-operative organisations.

The opponents of any State financial assistance contended that the formation and management of Co-operative Credit Societies should be left to private initiative; that the supply of the funds requisite for the business of such Societies should, in the same way, be left to private initiative, and that every financial subvention from the State should be rejected as weakening the principles of self-government, self-help, and the sense of responsibility.

We regret we have not space to refer, even in outline, to the exhaustive arguments used by both sides in the very informing discussion which took place. The debate ended in the previous question being moved and carried, owing to the obviously irreconcilable differences of opinion amongst the members of the Congress on the subject. Some valuable Memoranda on the question, written by experts of various nationalities, are published in the Report of the Proceedings of this Congress.

Varying Conditions in different Countries call for varying treatment.

546. In view of the varying results which have been achieved—in some cases beneficial, and in others detrimental—through the agency of State advances to co-operative credit institutions, it is in our opinion idle to attempt to lay down any principle of general applicability in this matter. In dealing with the question of the selection of the basis of liability for Credit Societies, we have pointed out that the differing economic and social conditions of various countries render it impracticable to lay down any line of procedure for one country, merely because it has been found to work successfully elsewhere; and this also holds good in regard to the important question of the relations which should exist between the State and the Co-operative Credit movement.

A further variable factor is introduced into the consideration of the problem by the differences in the nature of the channels through which State advances are made. Broadly speaking, it may be said that Government assistance of this nature in Continental countries

Paras. 328-342

* *Vide* Report of Proceedings of the above Congress, published by the International Co-operative Alliance, London, pp. 111-160, 221-319. The arguments against State Grants to Co-operative Credit Societies may also be found summarised in Mr. H. W. Wolff's *People's Banks*, Chapter IX.

is not afforded, as a rule, to the local Credit Societies directly, but is given indirectly through the intermediate agency of larger co-operative bodies, such as Central Banks or Unions. In Ireland, however, in the absence of a Central Bank, the advances made by the Congested Districts Board and the Department of Agriculture to Credit Societies have been made directly to these local Societies, usually on the recommendation of the I.A.O.S. We have throughout our sittings devoted special attention to the results, as far as could be ascertained, of this assistance in the case of the Irish Societies, although it was obviously impossible to hear witnesses from more than a limited proportion of the Societies which had thus obtained aid from State funds.

ADVANCES MADE TO CREDIT SOCIETIES BY THE CONGESTED DISTRICTS BOARD.

547. We propose to consider first the aid thus given by the Congested Districts Board,* which has made advances from its funds to Credit Societies in congested areas since the year 1898, *i.e.*, two years before the establishment of the Department of Agriculture, which shortly after its creation adopted the same policy.

In their Annual Report for the year ended March, 1899, the Board stated that in March of the previous year they had "resolved to assist the I.A.O.S. in the establishment of 'Agricultural Banks' in the congested districts on the system of the 'People's Banks' which had become so numerous and so successful on the Continent"; that £250 had been voted to the Society as a contribution in aid of the expenses of organising new banks; and that loans of £50 to fourteen banks, and of £100 each to three others at 2½ per cent. interest, had been made. It was added that the Board had decided to charge 3 per cent. in the future. In the following year the Board reported that a further sum of £1,000 had been advanced in loans to sixteen Agricultural Banks, making a total of £2,000 issued to twenty-five Banks, out of £3,000 set apart for the purpose.

The Board reported in 1904 that they had made a new arrangement with the I.A.O.S. under which an Organiser devoted the whole of his time to the establishment and inspection of Credit Societies in the congested districts. Seventeen Societies were returned as not working or in abeyance, while in ten other cases the Board had obtained no return. In February of this year the Board set aside a fund of £6,000 for the purpose of making loans to Credit Societies.

548. The Report for 1909 in referring to the increase of the funds received from Joint Stock Banks and from local depositors, and to the fact that the Reserve Funds now amounted to £1,143 for 45 Societies, stated: "On the other hand, as many as eight of them were not, at the date of printing this Report, in a position to furnish a statement of their accounts for the year ending 31st December last. Although the accounts are kept and the correspondence of all these banks is carried on by honorary officers, the failure to observe important rules, framed for the management of the business, is to be regretted."

The Board in their Annual Report for the year ended 31st June, 1912, state that they "continue to make a grant of £350 a year to the Irish Agricultural Organisation Society for the organisation and inspection of Agricultural Credit Societies or Banks in the Congested Districts, and loans from the Board to such Societies are still outstanding. The advances were made to assist in providing small amounts of capital for the starting of such Societies. We are not increasing our assistance to such Societies, pending the result of an inquiry that is being at present conducted by a Committee nominated by the Department of Agriculture and Technical Instruction."

Mr. Henry Doran's criticism of Credit Societies in Congested Districts.

549. Your Committee were furnished by Mr. Henry Doran, member of the Congested Districts Board, with useful detailed information regarding the relations of that Board with Credit Societies in Congested areas. Mr. Doran expressed his opinion that "Credit banks on their present basis cannot be seriously considered as a source on which land holders in the Western Districts may be financed to any useful extent." He would in fact "discontinue all such Credit banks as likely to do more harm than good."

In their place he would propose to set up Societies, duly constituted under the I.A.O.S. Rules to the satisfaction of the Department and of the Congested Districts Board. A Society of this sort would obtain from the Joint Stock Bank an overdraft at 4 per cent., as at present, such overdraft, to the amount sanctioned, being guaranteed to the Joint

* *Vide* Table on p. 128, column II.

Stock Bank by the Department in non-congested areas, and by the Board in congested areas, on the condition that these State institutions would be liable only for any deficit which the Joint Stock Bank failed to recover from the members of the Society after all legal methods of recovery had been exhausted. Loans would be issued to members of the Society only by means of cheques on the Joint Stock Bank, and the Society would deposit in this Bank the Promissory Note signed by the borrower and his two sureties. The Joint Stock Bank would issue to the borrower a demand for the amount due at the assigned date or dates. In default of payment by the borrower, the members of the Credit Society would be liable. Should the members in their turn fail to pay, the Department or the Congested Districts Board would pay the deficit to the Bank. The Bank might receive, in addition to the 4 per cent. on overdraft, a commission for the collection of the loans under the scheme, such commission to be paid by the borrower in addition to the 4 per cent. interest.

Mr. Doran went on to suggest that if the Joint Stock Banks declined to agree to this arrangement, a Central Agricultural Bank should be created, which would, he believed, find ample capital, if it were in a position to guarantee to all depositors the repayment of their deposits with interest at, say, 3 or 3½ per cent., in substitution for the financial aid afforded in the past to Credit Societies by the Department and the Congested Districts Board. These State Departments should give a guarantee for deposits to a specified amount in the non-congested and the congested areas respectively. Any such scheme should include arrangements for providing an efficient organisation and inspection staff.

Observations on Mr. Doran's proposals.

550. Your Committee gathered that Mr. Doran's main objection to the existing co-operative credit system was that it frequently entails the handling of considerable sums of money and the carrying on of banking business by inexperienced Secretaries and Committees, unversed in financial matters and of comparatively little education; that, owing to the lack of funds, the inspection and supervision hitherto carried out by the I.A.O.S. had not been sufficient; and that the sums usually lent by Credit Societies are too small to have any appreciable effect in developing the resources of the land-holders requiring capital.

It will be seen from other sections of our Report that we are in general agreement with several of Mr. Doran's criticisms and suggestions. But some of these would, in our opinion, be largely met by our proposals in favour of the carrying out of the lending transactions of Credit Societies, when possible, by cheque only; the lodging at the earliest moment of all cash in the nearest Joint Stock Bank; the re-organising and strengthening of the system of audit and inspection, under an Agricultural Credit Section of the Department of Agriculture; and the creating of a Credit Society only when a fairly competent Secretary is available, who should receive some small remuneration.

On the whole, Mr. Doran in his suggestive evidence seems rather to underestimate the possibilities of well-organised Credit Societies in the field of small rural credit; but we fully share his view that in the larger sphere of long term loans, for such purposes as land improvement, these Societies are quite insufficient.

Evidence of Mr. W. J. D. Walker, Congested Districts Board.

551. Mr. Walker, another member of the Congested Districts Board, who has given special attention to the operations of Credit Societies in the congested districts, stated that the Board had made loans amounting to £6,920 since the year 1898, to 80 Credit Societies. In the case of 23 Societies loans amounting to £1,575 had been repaid or withdrawn. In 4 cases loans had been withdrawn on the advice of the I.A.O.S.; 3 Societies no longer required loans; in 5 instances the Societies were working unsatisfactorily; while 9 Societies had been dissolved. The Board had incurred no monetary loss in respect of Societies which had ceased to operate. A sum of £5,345 was due in April, 1912, to the Board from 57 Societies.

A portion of Mr. Walker's evidence to which special importance attaches was his expression of the opinion that in the Credit Societies which were working solely on money advanced by the Board there was not the same active local control and security as in cases where the Society had a Bank overdraft or possessed local deposits. "The Committee are not interested to the same extent in administering a loan from the Congested Districts Board as they would be if they were administering funds of their own." Of the 57 Credit Societies holding loans from the Board in 1911, 18 had no deposits whatever, and of these 12 had also no overdraft on a Joint Stock Bank, and were thus entirely dependent on State advances for the supply of capital. In about half the Societies holding loans from the Board the cash balance was in the hands of the Secretary or Treasurer.

Mr. Walker suggested that if the nearest Bank was too distant from the Society for immediate lodgments to be made, the cash balance should be placed in the nearest Post Office to the credit of one or two members of the Committee. He also advocated the formation of a Central Bank or Clearing House, mainly with a view to having the accounts of the local Societies kept there, and all cheques drawn on such Central Bank (which might possibly be the I.A.O.S.) Some such plan would avoid the risks arising from the keeping of books locally by incompetent persons, in his opinion the greatest drawback to the existing system. We deal elsewhere with several of these suggestions.

Para. 540.

Paras. 433-6.

Para. 425.

REPORT OF ROYAL COMMISSION ON CONGESTION, 1907.

552. The Royal Commission on Congestion in Ireland, which reported in 1908, in dealing with the question of advances by the Congested Districts Board to Agricultural Credit Societies, stated :

"The circumstances of each bank are watched, and as soon as local funds are raised from Joint stock banks or private individuals, the Board withdraw part or the whole of their loan and transfer the money to another bank, where it is more required, or where no loan has yet been made by them. It is hoped by the Board that in time the banks will accumulate reserve funds which will make them more independent of external assistance. The advantage that, in the Board's opinion, would thus be attained, is one of very great importance to the healthy working of these societies, namely the growth of a sense of greater independence and self-help, when the members recognise that they possess a property of their own in the Bank, which it is their interest to preserve and strengthen, instead of feeling that they are borrowing from a quasi-charitable fund."*

Statistics of Advances from the Congested Districts Board to Credit Societies.

553. The following figures show the amounts due to the Congested Districts Board by various Credit Societies on the 31st December of the years indicated :—

Year.	Amount outstanding on loan from Board.	Number of Credit Societies concerned.
	£	
1898 ...	800	13
1899 ...	1,700	24
1900 ...	2,330	29
1901 ...	2,980	36
1902 ...	3,430	40
1903 ...	4,330	47
1904 ...	5,030	57
1905 ...	6,000	68
1906 ...	5,888	65
1907 ...	5,872	63
1908 ...	5,930	64
1909 ...	5,675	60
1910 ...	5,552	60
1911 ...	5,395	57
1912 ...	5,320	57
1913 ...	5,045	54

Prolonged retention by Societies of State Loans.

554. The advances still retained by the Societies are about three times as large as those repaid or withdrawn; while 54 Societies retain this State aid, as compared with 26 which have relinquished it or have had it withdrawn for various reasons. Some Societies, it is evident, must be in possession of these loans for many years, and have probably in many cases come to regard them in the light of a permanent grant. At this rate of progress towards independence of financial aid from the State, very many years must elapse before the Board's present outstanding loans are all repaid by the Societies, assuming no fresh advances to be made.

Para. 558

It appears that of the 63 Societies holding £5,872 from the Congested Districts Board on 31st December, 1907, 23 Societies possessed at the same time loans from the Department of Agriculture, amounting to a total of £1,944; and that of the 57 Societies which on 31st December, 1911, held £5,395 from the Board, 7 held also £282 from the Department.

* Report of Royal Commission on Congestion. [Cd. 4097-1908], para. 93.

Paras. 366-370.

Every reasonable allowance must be made for the backward condition of many communities in the congested areas. Yet several Credit Societies in these areas, such as those at Malin in Co. Donegal, and Townacrann in Co. Mayo, have succeeded in attracting a considerable amount of local deposits. But, taken as a whole, the published figures reveal too great a dependence on sources other than deposits for the capital of the Societies. The County Donegal Societies are an exception, for they hold about two-thirds of their capital in local deposits. But in County Clare the proportion of deposits to total capital was, in 1911, one-thirteenth; in County Galway, one-fifth; in County Mayo and in County Kerry, two-fifths.

Para. 112.

The remarkable official figures which we give elsewhere in regard to the large deposits in rural Post Offices—including those in congested areas—prove that there is no lack of savings even in comparatively poor districts, if only suitable means were devised to attract these savings to Credit Societies, thus enabling the advances from the State to be repaid, and the thrift side of the movement to be much more strongly developed.

ADVANCES MADE TO CREDIT SOCIETIES BY THE DEPARTMENT OF AGRICULTURE.

555. From the first year of its existence the Department of Agriculture and Technical Instruction, with the concurrence of the Agricultural Board, adopted the policy which had, as we have seen, been for several years followed by the Congested Districts Board of advancing State funds to Credit Societies. The first loans actually made appear to have been in the case of the Kyle and Boyle Societies which were given a loan of £100 each in the month of July, 1901.

The following figures show the amounts outstanding on 31st December of each year from 1901 to 1913, together with the number of Societies which were in possession of funds from the Department* :—

Year.		Amount outstanding on Loan from Department.	Number of Credit Societies concerned.
		£	
1901	...	1,350	18
1902	...	4,655	53
1903	...	7,455	86
1904	...	8,835	99
1905	...	9,813	118
1906	...	9,433	117
1907	...	12,913	141
1908	...	12,263	130
1909	...	10,021	105
1910	...	8,498	94
1911	...	7,852	87
1912	...	7,074	76
1913	...	6,523	71

Eighty per cent. of Societies in receipt of State funds in 1907.

556. It will be observed that in the year 1907 the Department's financial aid to the Societies had reached its maximum, £12,913 being at the end of that year outstanding with 141 Societies, while at the same time 63 Societies held further sums amounting to £5,872 from the Congested Districts Board. As 23 Societies held loans at the same time from both State Departments, the total number of Societies in receipt of State funds in December, 1907, was 181. Thus 80 per cent of the Societies recorded as working, and 96 per cent. of those furnishing Returns, held part or all of their capital from the State.

In their Report for the year 1904-5 the Department stated that a sum of £10,000 had been allocated for loan capital in connection with Credit Societies.

"The Department advance loans varying in amount from £25 to £100 to approved banks, on which interest is charged at the rate of 3 per cent. per annum. The advances are made under a bond given by the bank for the due repayment of the loan, and this bond forms a continuing security until the loan is paid off. Loans are granted for eighteen months, and may be called in at the expiration of that period; but as the security holds good until the principal is fully repaid, it has not been deemed advisable to call

* See also Table on p. 128, column 10.

in loans until they are no longer required, and sufficient deposits for the working of the bank have been subscribed locally. When a loan is repaid by a bank the amount is issued to another approved applicant, so that the loan capital is kept in circulation.

"For the work of organising agricultural banks, the Department make use of the services of the bank organisers employed by the Irish Agricultural Organisation Society, and the receipt in each case of a certificate from these officers, endorsed by the Secretary of the Society, to the effect that a satisfactory committee has been appointed, and that the bank has been properly organised and shows promise of being worked with success, is a condition precedent to the granting of a loan."*

LEGAL ACTION NECESSARY IN TWENTY-EIGHT CASES FOR RECOVERY OF LOANS FROM CREDIT SOCIETIES.

557. From a Return which we have obtained from the Department of Agriculture it appears that out of the total advances of £18,442 made to 170 Credit Societies the Department had been repaid (up to 31st Decr., 1913), the whole of the loans in 98 cases, to the value of £9,945. It is very unsatisfactory, however, to learn that in 25 of these cases, *i.e.*, over one-quarter of the total number, it was found necessary, after repeated requests for repayment of the amount due had failed, to take legal action through the Chief Crown Solicitor for the recovery of the money. In 36 other cases the Department were forced to exert pressure, short of legal action, to obtain repayment of their advances. In 37 out of the 98 cases the whole loan was repaid voluntarily by the Societies.

In 23 other cases, in which the total amount lent was £1,841, the advances of the Department had been partially repaid by the 31st Decr., 1913. Legal action was found necessary in 4 of these instances, and pressure had to be exercised by the Department in 7 cases, leaving 12 cases in which the money was repaid voluntarily without pressure. Combining these two sets of figures, it appears that out of a total of 121 Credit Societies which have repaid the Department's advances, in whole or in part, legal action was necessary in 29 instances, or almost one quarter of the total, while pressure from the Department was required in 43 other cases. In 72 cases, therefore, out of 121, pressure had to be applied, leaving 49 Societies which repaid the loans voluntarily.

In the great majority of cases the Department appear not to have asked for the repayment of their loans until at least several years after the period of eighteen months for which the advance was originally made had expired. This course was frequently taken, we understand, with a view to avoiding the inconvenience which would be caused by the recall of loans from Societies which were making good use of the money. In some cases, again, the Department found it necessary to call in the money from Societies in order that the funds might be utilised for the assistance of fresh Societies which had been recommended by the I.A.O.S. for advances. Out of the £18,442 lent by the Department, a sum of over £6,500 remained with the Societies on 31st December, 1913, although the bulk of this amount was lent a considerable number of years ago—a proof, we think, that the Department have not been in any way strict in insisting upon Credit Societies fulfilling their obligations in regard to the date for repayment of loans.

Causes of failures to repay, without pressure, State Advances.

558. Your Committee have thought it well to become closely acquainted with the circumstances of several of the cases where legal action was found necessary by the Department, and to examine witnesses in regard to them. From the information thus obtained, it is evident that, in addition to the carelessness of some Secretaries and Committees in making loans to unsuitable persons, and the exceedingly harmful practice of renewing loans to the same borrowers year after year, one very general cause for the failure of Societies in 72 cases to repay, save under pressure, legal or otherwise, the advances made by the Department, has been the widespread feeling that the loan is in reality a permanent gift, owing to its being made from the State's assumed limitless resources. In some instances, the borrowing Societies seem to have considered that they had a right to the use of the capital of the loan so long as they paid the interest regularly; and to have felt rather aggrieved that a Government Department should expect to receive its money back again from the borrower! One suggestive phrase used in this connection was the charge made against the Department of "evicting" a Society out of its loan! It is admittedly not easy for Credit Societies to obtain capital elsewhere at the low rate of 3 per cent. charged by the Department, nor to find a creditor who would willingly acquiesce in the extension of the time for repayment from eighteen months to five or six years, or even

Paras. 482-4

* *Fifth Annual Report of Department of Agriculture and Technical Instruction*, p. 13.

longer. Another reason given for the reluctance of so many Societies to refund to the State the advances made was their fear that such withdrawal would weaken the confidence of depositors, a result which would, we have little doubt, ensue in many cases, especially in the weaker Societies.

BALANCE OF LOANS WRITTEN OFF AS IRRECOVERABLE IN THE CASE OF THREE CREDIT SOCIETIES.

Rt. Hon. T. W. Russell, p. 2; R. A. Anderson, 1875-84; P. Gegan, 1620-31

559. In three cases only have the Department written off as irrecoverable amounts due by Credit Societies. The total sum thus written off, including interest, was £151 6s. 1d. the Credit Societies being those at Killurin, Lettera, and Dysart.

The Department having obtained, after considerable difficulty, the repayment by legal process of portion of their advances in these cases, decided not to press the matter further against the members of the Societies, who, being liable to the whole extent of their property for the debts of their Society, would undoubtedly have suffered severely by such action in many instances, owing to their straitened circumstances.

Unfortunate history of the late Killurin Credit Society.

H. D. Jeffares, 18458-91

560. During our sittings at Waterford a member of the Killurin Credit Society informed us that personally he had paid £40 towards the debts of the Society (including a personal bond of £20 to the Joint Stock Bank), an amount which he could very ill afford. He had joined the Society originally, not because he wished to become a borrower himself, but in order to assist his neighbours. This Society, we may remark, was a Fisherman's rather than an Agricultural Society, and, in our opinion, should never have been established. The general nature of the fishing industry and of its credit requirements do not render it a suitable sphere for the operations of a Credit Society specially adapted to the needs of agriculturists.*

After the Society had been in existence for five years, laxity in repayment of loans by some of its members became so serious that the I.A.O.S. in 1907 recommended the Department to withdraw its loan of £100. The following is an extract from the I.A.O.S. Report upon the Society:—

"Notice should be given to recall the first £50 within three months. The Balance Sheet shows that the members are very lax in their repayments of the loans, and it is advisable to let them know that if punctuality is not insisted upon, it is not the kind of Society the Department wishes to aid with capital. They have no local deposits, and personally I see no reason why the loan should be left with this Society any longer than to enable the Committee to recall the outstanding loans from members."

Subsequently, at the suggestion of the I.A.O.S., the Department delayed taking action owing to a bad fishing season; but in the following year (1908) the I.A.O.S. again recommended the withdrawal of £50 by the Department, seeing that although the following fishing season had been successful, several loans to members were still outstanding. Accordingly the Department asked the Society in December, 1908 (*i.e.*, six and a half years from the date of issue of the advance) to refund £50. No satisfactory replies being obtainable, the Department, after a careful visit of inquiry by one of their Inspectors, wrote in March, 1909, recalling the whole loan by instalments of £50, £25, and £25, spread over eight months; but without result. Finally, the matter was placed in the hands of the Chief Crown Solicitor for recovery of the loan of £100, with interest due. One member of the Society from whom over £60 was alleged to be due was reported as not being worth sixty pence! The Department, under legal advice, finally decided, with the friendly assistance of a local firm of Solicitors, to recover as much as possible through their agency. After a sum of £61 3s. 6d. had been with great difficulty thus recovered, much of it in very small sums, the Department decided, in December, 1912, to write off the balance of £39 6s. 6d. as irrecoverable. In this case, as in some others which came under our notice, something more reprehensible than mere laxity was evidently the main cause of the Society's break-down.

561. Your Committee have thought it necessary to enter into some detail in this case—undoubtedly an exceptional one—because it so well illustrates, amongst other things, the extreme danger of admitting unsuitable members into a Credit Society. Some of the most deserving members of this Society suffered severely for the faults of undesirable members whose property if sold up would have fetched little or nothing. The risks

* The fact that out of loans amounting to £64,000, advanced to fishermen by the Department under various schemes, only £274 (not one half per cent.) has been written off, proves that Irish fishermen as a class are to be relied on for repayment of loans made under schemes framed to meet the conditions of the fishing industry.

which the better-off members in an unlimited liability Society occasionally incur in case of default by the Society, as also the necessity for obtaining security from officers entrusted with the custody of funds, are strikingly exemplified.

The cases of the Societies at Lettera* (where £32 was written off) and Dysart (where £80 was similarly written off) also reveal unfortunate histories into which we need not enter. We are convinced, from our knowledge of the facts, that the Department in these cases did not cancel the balances of the loans as irrecoverable without reasonable ground for doing so. In the case of Lettera the sum of £282 was recovered by the Department, through legal proceedings, before the balance was written off; and in the case of Dysart, £42 was similarly recovered.

SEED LOANS ADVANCED TO CREDIT SOCIETIES BY DEPARTMENT OF AGRICULTURE.

562. Since the year 1906 the Department of Agriculture have advanced special Seed Loans to farmers at 3 per cent., for the specific purpose of purchasing seeds, manures, and spraying materials. As a Credit Society could not legally engage in trading operations under the *Friendly Societies Act*, it was found necessary to form in each case a Committee *ad hoc*, which obtained the seed for the members of the Society and was responsible for its distribution. The total amount thus issued by the Department to the 31st December, 1913, was £4,702. These special seed loans are made repayable at a specific date within the same year. They have, we understand, all been repaid in due course, with the exception of £32 (including interest) in the case of the Lettera Society, which was, as we have seen, written off as irrecoverable. Some of the loans have not yet fallen due for repayment, so that there was at the date mentioned a balance of £268 outstanding. These loans seem to have been repaid with extreme punctuality at the dates fixed, usually at the close of the year in which they were made, after the crops had been harvested. In only two cases was legal action necessary. The chief drawback to the system is that the special Committee formed for the purpose of receiving the loans cannot sue or be sued; nor can the Department be sure that the actual borrowers have repaid their loans to the Society.

Para. 561.

Benefits conferred by system of seed loans.

563. The insistence upon repayment at a fixed date in the same year seems to have obviated the risk of this particular class of loan being treated as a permanent advance from the State. The evidence received by us from Societies in regard to this form of State financial aid expressed much appreciation of the benefits received through its agency. Such advances for a specific object, and repayable at a specified date within a period of less than twelve months, combined with strict adherence on the part of the Department to these conditions, are, in our belief, not open to the drawbacks attached to the usual State loans advanced to Credit Societies. We therefore do not recommend their discontinuance in cases where a group of farmers are in a position to satisfy the Department as to their need for such loans, and as to punctual repayment. The inconvenience of the machinery required undoubtedly tells to some extent in favour of the conferring of trading powers upon Credit Societies; but particular difficulties of this sort are, for the reasons given by us elsewhere, more than counterbalanced by the disadvantages of combining trading and banking operations in the one Society.

R. A. Anderson, 1851-60;
T. Porter, 1883;
G. Russell, 1885

See para. 477

Small proportion of Total Loans advanced to Credit Societies written off as bad Debts.

564. Out of the total advances made to Credit Societies amounting to £18,442, the Department have been repaid (to 31st December, 1913) a sum of £11,786, with a loss of £151 (including interest), or 1·3 per cent. of the amount repaid, in a period of thirteen years (an average loss of less than £12 per year). The Congested Districts Board, as stated to us by Mr. Walker, have as yet sustained no pecuniary loss in connection with advances to Societies in congested areas. Nor have the Joint Stock Banks, as far as we are aware, suffered loss in relation to their overdrafts to the Societies, although in some cases the guarantors have had to be called upon. We quote elsewhere the views of some of the Banks in regard to these Societies, showing that on the whole, in spite of failures through mismanagement, the Societies have usually been satisfactory clients.

See para. 439

* The loan in this case was not an ordinary advance to a Credit Society, but was a Seed Loan of the nature described in the next paragraph.

Legal action or other pressure necessary in many cases to obtain repayment of State loans.

Paras. 557-8

565. This is undoubtedly a very creditable record for the Societies when the matter is looked at solely in respect of the actual losses sustained by creditors. But when the trouble entailed in obtaining repayment of State loans in numerous cases is taken into account, the position cannot, unfortunately, be viewed in so favourable a light. We regret that of the 121 Societies from which the Department have obtained repayment of all or part of their advances, one-quarter of the number should have had to be compelled by legal process to pay their debts, often many years after these had fallen due, and only after repeated representations from the Department had failed to obtain satisfaction. In many other cases, as has been shown, pressure short of legal action had to be exerted by the Department; so that in 72 out of 121 cases, or in about 60 per cent. of the total number, difficulty was experienced in recovering the money. In several instances the withdrawal of the Department's advances was recommended by the I.A.O.S., upon the reports of their organisers.

We have no evidence to show whether any of the sum of £6,523 still due to the Department from 71 Credit Societies, or of the £5,045 owing to the Congested Districts Board from 54 Societies can be regarded as unsafe; there is, however, no reason to think that the percentage of loss will be any larger on these debts than on those already repaid. But apart from the possibility of actual loss to a creditor is the hardship so often inflicted on members of humble position when they are called upon by legal process to make good the losses caused by the default of their fellow members, from whom, as in the case of the Killurin Society, they may be unable to recover any part of their loss.

Paras. 481-4, 574

In many cases where the Department found difficulty in obtaining repayment from a Society, the Committee of the latter had allowed loans to borrowers to become overdue, or else had sanctioned continued renewals—in both cases seriously damaging the financial status of the organisation, and creating an unsafe situation, bound to lead to serious trouble. Of 103 Societies reported upon by the Department's Inspector, renewals, as we have seen, were frequent in 56 cases, or in over half of the total, while in 41 cases loans to borrowers were allowed to become overdue. A Society where punctuality in repayment is not enforced upon its borrowers is not unlikely to raise difficulties when asked to repay its own debt to the State.

RESULT OF INSPECTION OF 103 CREDIT SOCIETIES BY DEPARTMENT'S INSPECTOR.

566. A good deal of light is thrown on the question of the effect of State loans upon Credit Societies by the results of the above-mentioned inspection made in the year 1910, by one of the Department's Inspectors, of a number of Credit Societies then holding advances from the Department.

The Department in that year arranged for one of their staff, Mr. Mennell, an Associate of the Institute of Chartered Accountants, to visit and report upon the 110 Credit Societies holding loans from the Department. Mr. Mennell visited 103 of these Societies. Two Societies refused to allow him to examine their books; one Society had ceased working; and in two cases legal action was in course of proceeding. Your Committee have obtained copies of the Report based upon the results of this inspection.

Twenty-two per cent. of Societies reported Satisfactory; 35 per cent. Fair; 43 per cent. Unsatisfactory.

567. The main findings of the Report were as follows:—

Number of Societies reported as Satisfactory ...	22 (= 22 per cent. of those visited).
" " Fair ...	36 (= 35 per cent. " ")
" " Unsatisfactory	45 (= 43 per cent. " ")

The precise meanings attached to these descriptions were indicated as follows in the Report:—

" *Satisfactory*.—Means that the Bank's affairs generally are well managed; that is to say, that the Committee appear to do the work well, to meet regularly, and so far as circumstances and their knowledge of affairs permit, endeavour to make the bank a useful local institution; that the Secretary's work is well done, minutes of meetings recorded, cash and ledger accounts kept up to date, and bonds and other documents carefully filled and retained. An 'unprogressive' bank is not included in this class, even if its affairs are otherwise soundly managed.

" *Fair*.—Includes a rather wide range, from banks that are almost 'satisfactory,' to those which are almost 'unsatisfactory,' but which, on the whole, tend towards 'satisfactory' rather than 'unsatisfactory.' This class includes many banks classed as 'fair,' not so much because of what they do, as because of what

they fail to do ; for example, books and documents may be well kept, but the Committee may be apathetic and simply drift along ; or the Committee may adopt a policy of renewing loans, which are regularly paid in ; or there may be carelessness as to writing up the books, though the rough materials to do so may be available.

“Unsatisfactory.”—Means that a bank is distinctly unsatisfactory with respect to its management by the Committee, or the Secretary’s duties ; generally banks so classed are unsatisfactory in several ways ; such as the following :—‘General negligence and apathy of Committee, carelessness and negligence on part of Secretary, too frequent renewal of loans, allowing loans to become overdue to an unreasonable extent.’ ”

“ Progressive ” and “ Unprogressive ” Societies.

568. Of the 103 Societies inspected, 73 were reported as “ progressive ” and 30 as “ unprogressive,” the term “ progressive ” implying that the Society had “ provided loan capital by local deposits or bank overdraft,” while “ unprogressive ” implied that the Society was “ wholly or almost wholly dependent on loans from the Department or the Congested Districts Board for its capital.” Possibly more suitable terms than “ progressive ” and “ unprogressive ” might have been found to denote these particular characteristics ; for it is quite possible that a Credit Society may arrange for a Bank overdraft, and yet be in many important respects unprogressive in its methods of working, and *vice versa*. Of the 19 Credit Societies visited in the County Wexford, 5 were reported to be “ satisfactory,” 8 “ fair,” and 6 “ unsatisfactory,” while 15 were said to be “ progressive ; ” thus two at least of the “ unsatisfactory ” Societies must at the same time have been “ progressive.”

Of the 103 Societies 29 had no account with a Joint Stock Bank. In the case of 5 Societies the funds had been misappropriated.

CAUSES OF THE UNSATISFACTORY CONDITION OF MANY CREDIT SOCIETIES HOLDING LOANS FROM DEPARTMENT.

569. The chief causes for the unsatisfactory fulfilling of their functions by many Credit Societies were said to be as follows (we summarise the terms of the Report) :—

(a) *Admission of unsuitable members.*

570. The admission of unsuitable members to Credit Societies and Committees was frequently the practice. Almost anyone in need of money was too often allowed to join, in the belief that it would afterwards be easy to refuse loans to unsatisfactory applicants unless they were backed up by good securities. This harmful practice had often given a Society a bad reputation from the start. Paras. 504-7.

(b) *Difficulty of finding a competent Secretary.*

571 The difficulty of finding a competent Secretary was often great. In over one-fifth of the Societies inspected (*i.e.*, in 23 cases) the Secretary’s work was stated to be unsatisfactory. Want of acquaintance with book-keeping, and lack of business knowledge required for the proper keeping of books and filling of bonds, &c., were frequently found. Paras. 523-544.

(c) *Indifference of many Committees to their duties.*

572. Many Committees failed to realise the importance of their duties, leaving the responsibility on the shoulders of the Secretary. The Rule providing that any member absenting himself from his duties four times in succession, without sufficient excuse, would be held to have vacated his office, was seldom enforced.* Committees were often utterly ignorant as to whether their procedure was correct or not, and were incapable of ascertaining their financial position. Not infrequently illiterates were members of Committees. Many Committees were very careless or indifferent as to providing for the safe and orderly keeping of bank books and documents, and as to satisfying themselves that bonds were correctly filled, that loans were applied to the purpose for which granted, that bonds were cancelled when loans were paid off, and that moneys received were promptly lodged to the credit of the Society’s bank account. The very essential Rule† requiring two members of the Committee to check and sign at the Committee meetings the statement of accounts to be presented by the Secretary appeared to have been very generally neglected by the societies inspected.

* See Rule VII. (j), Appendix 22 to Minutes of Evidence.

† *Ibid.* Rule VII. (e).

(d) *Occasional retention of loan capital by Secretary.*

Para. 540

573. In several instances portions, sometimes considerable portions, of a Society's loan capital had been retained by Secretaries or other persons, the Committees being apparently ignorant of the condition of affairs. In one case the Secretary had deliberately purloined the funds, while in two other cases he had either misrepresented the state of business, or neglected to make the Committee understand it. The practice of paying loans in cash, instead of by cheque, had probably tended to render easy the misappropriation of the funds; but the neglect of the Committee to carry out the Rule as to strictly examining the statement of accounts presented, or which should be presented, by the Secretary, was the principal cause of the practice referred to.

(e) *Disregard of object of loans; renewals of loans.*

Paras. 481-4

574. The Rule* as to loans being granted only "for some profitable or productive purpose, or one which, in the opinion of the Committee, will effect a saving or economy to the borrower" was frequently ignored. It seemed to be a very common custom to grant a loan for any ostensible reason which complied with this condition, though the Committee might suspect that the loan would probably be applied to other uses. Perhaps the most dangerous purpose commonly given as that for which a loan was granted was the "holding over of stock"—a reason which might cover any conceivable object. The habitual renewal of loans by some Societies merely served to increase the permanent debt of the borrower. "It is difficult to convince some Committees that this practice is pernicious and demoralising; it should be vigorously stamped out."

(f) *Difficulty in some cases of obtaining deposits or Bank overdraft.*

575. In 29 cases out of 103, the Credit Societies relied wholly, or almost so, on the loans obtained from the Department or the Congested Districts Board. Overdrafts on Joint Stock Banks and deposits were often most difficult, if not impossible, to procure when the members were all very poor. "The difficulty as to an overdraft is due to the fact that the Joint Stock Bank naturally does not care to lend, when there are not a few good substantial men to act as securities. The difficulty in obtaining deposits is probably mainly because those who have money to lend have not confidence in the Committee or bank membership."

The following paragraph is particularly relevant to the question of the effect of loans from State funds to Credit Societies:—

"It may be accepted as a general rule that in ordinary districts if a bank fails to provide loan capital by means of an overdraft or deposits, it is pretty certain to stagnate, and prove harmful rather than otherwise. An overdraft is almost essential if deposits are available, as depositors like to be able to withdraw their money rapidly if it is required; and to meet such demands promptly an overdraft is necessary. Except in very poor districts, or under exceptional circumstances, the Department's loan should only be retained by banks which are progressive, that is, which have provided loan capital by means of an overdraft or deposits."

(g) *Careless custody of books and documents.*

Paras. 516-520

576. Not infrequently books and documents were kept in a slovenly, careless manner, or left where they might be lost or perused by unauthorised persons. Although in a few cases the Secretaries and Committees have been deliberately careless and lethargic, in many instances the unsatisfactory nature of the Society was due to ignorance of the Committee as to their duties, and a general tendency on the part of both Committees and Secretaries to shirk work and responsibility.

Necessity for instruction of Credit Societies in sound methods.

577. We quote in full the closing paragraph of this carefully drawn-up Report—a Report, we may add, which has been fully corroborated by much of the evidence received at our sittings, which we have not space to quote:—

"Societies should be made to understand that they have no right to expect the Government, or private individuals, to supply them with money on loan or deposit, unless they are prepared to take the trouble and responsibility of ensuring that the bank affairs are administered in a sound businesslike manner.

"Generally speaking, their lack of business knowledge would necessitate a greater amount of instruction than they appear to have received, and provision should be made for giving this instruction in future. If then they neglect properly to perform their duties, the sooner the Society's operations cease the better, and in such circumstances the Department should withdraw its loan.

Para. 539

* Appendix 22 to Minutes of Evidence, Rule XII. (a).

“ There are a number of well-managed banks doing a great deal of good, and many more could be advantageously established, but there are also a number which are only doing harm by tempting people to increase their indebtedness without reasonable prospect of improvement thereby. Such results must sometimes be expected, but it is obvious that the greatest care should be taken when a Society is newly established to train it in good and sound methods.”

Probable percentage of unsatisfactory Societies in Ireland.

578. It is right to point out that, in the course of his evidence, Mr. Mennell informed us that the 103 Credit Societies reported upon by him possibly represented the worst Societies in Ireland, seeing that they were largely dependent upon the Department's loans and were, therefore, probably less progressive than those which had capital of their own, or had repaid the Department's loans. It would, therefore, in his opinion not be correct to assume that the same proportion (*i.e.*, 43 per cent.) of the total number of societies in the country would be unsatisfactory. 1454

We believe, however, from the evidence at our Inquiry, and from the published figures of the co-operative credit movement, that, even making allowance for some exceptionally strong societies, the percentage of unsatisfactory Societies would be approximately the same as above for the 163 Societies which furnished returns to the I.A.O.S. for 1911—not to speak of the extremely unsatisfactory position of the Societies nominally in existence, but making no returns and doing little or no business. Paras. 504-515

Detrimental effect of State Loans upon the Deposits of Credit Societies.

579. From the evidence furnished at our Inquiry we have no doubt but that in many cases the loan of £50 or £100 from the Department or the Congested Districts Board to a Credit Society has been of considerable service in attracting local confidence to the Society. Depositors, for example, have probably in a number of cases been induced to place their savings with a Society mainly by the fact that a State Department had, by entrusting funds to the Society, shown its faith in the security offered. But this beneficial result has not been by any means universal amongst the Societies thus aided. In many cases the availability of State money at the low rate of three per cent. has entailed a slackening in the efforts to obtain local deposits, and has led to a most undesirable reliance upon State advances as a source of capital. We have dealt with this aspect of State financial assistance when considering the problems connected with deposits in Credit Societies. Paras. 386, 447-8

Analysis of sources of Capital of Societies in years 1907 and 1911.

580. It is not possible, without more detailed information than we possess in regard to each Credit Society, to state the exact proportion of such Societies which have from the beginning obtained advances from the State. Taking the Credit Societies in Ireland as a whole, however, the figures at our disposal* show that in 1907 (the year in which the making of fresh advances by the Department of Agriculture to Credit Societies was discontinued) the capital of 188 Societies furnishing returns was comprised as follows :—

	£
Deposits	17,098 in 109 Societies.
From Department of Agriculture ...	12,913 in 141 Societies.
From Congested Districts Board ...	5,872 in 63 Societies.
From other sources, including Joint Stock Banks	12,835
Total ...	£48,718

Thus, of the total capital in this year only 35 per cent. was held in deposits, while 38 per cent. consisted of State advances.

The figures for the year 1911 show that the number of Societies furnishing returns to the I.A.O.S. had fallen to 163. The capital of these was composed as follows :—

	£
Deposits	27,290 in 98 Societies.
From Department of Agriculture ...	7,852 in 87 Societies.
From Congested Districts Board ...	5,395 in 57 Societies.
From other sources, including Joint Stock Banks	16,017
Total ...	£56,554

* See Table on page 128.

Para. 369

Deposits in this year composed 48 per cent. of the total capital, while State advances were accountable for 23 per cent. (7 Societies held loans from both State Departments). This increase in the proportion of deposits indicates progress in the right direction ; but it is, on the other hand, regrettable that the number of Societies recorded as possessing deposits should have fallen during the period from 109 to 98.*

Withdrawal of State loans has inconvenienced unprogressive Societies.

Para. 557

581. The figures above quoted, viewed as a whole, do not seem to indicate that the cessation of advances from the State to Credit Societies in recent years has been the cause of any material injury to the movement. The fact that capital from the Department's funds was no longer available has doubtless had an effect in preventing the formation of some Societies which would otherwise have been established. In individual cases, too, where Societies had for years depended almost solely on State capital, the Department's action has inevitably caused inconvenience, and in some instances may have been one of the chief reasons for a Society becoming defunct. But the Department's loans to Societies were, as a rule, originally made on the distinct understanding that they were merely temporary (usually for a period of eighteen months) and that the Committee, while enjoying the use of the money for this limited period, should make every effort to obtain local deposits, supplemented when necessary by an overdraft from the Joint Stock Bank.

State loans to Credit Societies with large Local Deposits.

J. Brett, 679
Rev. J. Morris,
14, 357

582. The Ballyragget and Malin Societies, each of which hold about £1,200 in deposits, are instances of Societies which at first obtained financial assistance from the State but after a time relinquished this aid, when they found that sufficient local deposits were obtainable as a source of capital. On the other hand, the Mullaghbawn Society, though possessing over £2,000 in deposits (the largest amount of any Credit Society in Ireland) still retains in addition the two loans of £100 each, advanced by the Department in the years 1903 and 1905. Its reserve fund amounts to £133, and it has an authorised overdraft at the Joint Stock Bank of £500. As the latter bears interest at the rate of 5 per cent., while the Department's loan is at 3 per cent., the Society presumably prefers to retain the State funds, and to make little use of the potential overdraft, which was availed of to the extent of only £22 on 31st December, 1911.

The Department would have been well advised to withdraw several years ago their loans from a strong Society such as Mullaghbawn, and to have thus induced the Committee to make greater use of the overdraft at the Bank. But we are not aware of the reason for a Joint Stock Bank in the case of one of the most successful Societies in Ireland charging 5 per cent. on overdraft, instead of 4 per cent., the rate almost universally charged to much smaller and weaker Societies.

Desirability of raising rate of interest on State loans not repaid when due.

M. A. Lyons,
9892-4

583. An Organiser of the I.A.O.S., whose work had been chiefly in the congested areas, informed us that the Congested Districts Board gave £100 to a Society in two moieties of £50 each ; " the condition of getting the second £50 was that so much local money would in the meantime be got in." That was the nucleus of the capital when sufficient local money was not got in at once. " I have known " he said, " local money come in within a week after the first £50 had been received from the Congested Districts Board." Much can be said in favour of the plan adopted by the Congested Districts Board of charging a lower rate of interest at first to Credit Societies for money advanced, but raising this rate after the Society has had the use of the loan for some considerable time without having endeavoured to repay it. This method has doubtless proved efficacious in some cases in spurring on a Society to refund the amount borrowed.

R. A. Anderson,
1660
T. Porter, 4892

Injury done to Societies by undue dependence upon State advances.

584. There is no room for doubt that largely in proportion as Societies have depended solely or mainly upon State advances for their working capital, their condition has been unsatisfactory, ending too frequently in stagnation. The State loan of £100 has in many cases been circulated year after year with unfailing regularity amongst a limited number of persons by means of constant renewals, frequently amongst the members of the Committee themselves, who under the circumstances naturally view this flagrant breach of the rules with a rather lenient eye. Nor have the most unsatisfactory Societies of this

* In the year 1912, the number of Societies possessing deposits was 110.

class been directly under our notice at the Inquiry. Invitations to send representatives as witnesses were forwarded, on our behalf, both to Societies which appeared from the published Returns to be extremely successful, and to those which seemed to be very unsatisfactory. As might have been anticipated, in a considerable number of the latter cases the Societies did not see their way to nominate a witness to give evidence.

During our sittings in the West of Ireland we thought it well to have a personal interview with the Secretaries of some Credit Societies at the Societies' rooms. In one of these cases, where the Society had a State loan of £100 (there being no deposits nor Joint Stock Bank overdraft), the Secretary informed us that good use could be made of an additional loan. We pointed out that portion of the £100 appeared from the I.A.O.S. Report not to have been lent out during the year, and that a balance was recorded as in hands at the end of the year. On our asking him where this balance now was, he admitted that it was in hands, not having been lent out. Needless to say, we heard nothing further of his suggestion for the advance of additional capital from the State to his Society. In pleasing contrast to this case is that of another Society which we visited, a few miles away, all of whose members were poor. This Society similarly depended solely on State funds. It met in the National Schoolhouse, the School Teacher being the Secretary, and seemed to be well worked. All the State money was out on loan, and much appreciated, we were told, by the members.

In the section dealing with deposits we have seen that several Credit Societies preferred that their capital should consist of a Joint Stock Bank overdraft rather than local deposits, not only on account of the low interest in most cases payable on the overdraft, but because such interest was payable only on the money while actually in use. It is clear that the facility with which capital has been obtainable at low rates of interest from State Departments and Joint Stock Banks is attended with considerable risks to the best interests of co-operative credit, if it leads not only to an ignoring of, but actual opposition to, the development of the thrift side of the movement.

LESSONS FROM STATE ADVANCES TO CO-OPERATIVE CREDIT IN OTHER COUNTRIES.

585. We have not thought it desirable to confine our inquiries in this important branch of the subject of rural credit to Ireland alone, but have been at some pains to ascertain from authoritative sources the extent to which the State in other countries furnishes a portion of the capital of Credit Societies, and the results of such assistance.

As a general rule such loans or grants are advanced not directly to individual Societies, as in Ireland, but through the medium of intervening bodies such as Central Banks or Unions. In Ireland the sums lent by the Department or Congested Districts Board have, in the absence of a Central Bank, usually been advanced to Societies on the advice of the I.A.O.S., whose opinion in regard to the position of a Credit Society and the desirability of making to it a loan from State funds seems to have been obtained in most, if not all, instances before the loan was made. Such procedure, however, is in both principle and practice very different from the making of advances through the agency of a Central Co-operative Bank, itself a banking institution.

Para. 390

CO-OPERATIVE RURAL CREDIT IN INDIA.

586. The country of all others where the general condition of large masses of the population would seem to justify the rendering of financial aid on a considerable scale by the State to rural Credit Societies is probably India. Both agriculture and industry are largely undeveloped; poverty is widespread in many districts, in spite of enormous secret hoardings; and the usurer for long held almost undisputed sway in large areas.

Sir F. A. Nicholson in his Report based upon his investigation into European and American rural credit systems drew a clear line of demarcation between State supervision and State subventions in relation to rural credit. In one passage he writes:—

“Since credit is essential to agriculture, it is equally essential that credit should be cheap, but above all safe, and it is assumed in this study that it is one of the duties of the State, especially of an agricultural State, to take precautions that rural credit shall be both accessible, cheap, safe and productive, not necessarily or even probably by any serious direct provision of credit, but by the provision of laws which shall favour the development of such credit.

“Credit which is the result of philanthropic or State effort is apt to be either abused or abortive; it is abused for it comes in the guise of charity, and is received as a mere surplus of the wealth of others which they can easily spare, with similar subsequent grants beside; it comes from a general and indeterminate fund, which is popularly supposed to be inexhaustible. Above all, such credit does not educate; it does not teach the borrower that all capital comes from saving; yet without this lesson credit is dangerous; credit is only safe when it brings with it the lesson that there is no royal road to wealth.”*

* *Report upon the Introduction of Land and Agricultural Banks into the Madras Presidency, 1895.* Vol. I., pp. 33 and 136-7.

The experienced Committee which reported in 1903 on the establishment of Co-operative Credit Societies in India came to the conclusion that there was no objection in principle to the provision by Government of a portion of the capital required for the working of Co-operative Societies, in the form of advances on the security of the Society.†

Large growth of deposits and trifling proportion of State financial aid in India.

587. We observe from the Annual Reports of the Conferences of Registrars of Co-operative Societies for the various Provinces of India that the rural credit organisations of that Empire are steadily repaying the advances made by the State in the earlier years of the movement, and are now relying almost solely on deposits as a source of capital. For instance the Report made by the Registrar of Credit Societies for the Punjab for 1911-12 shows that the rural Societies of the Province had in that year a working capital of about 50 lakhs of Rupees. Of this capital 60 per cent. was furnished by the members themselves, 17 per cent. consisted of deposits by non-members, 22 per cent. was lent by Central Banks, and Unions, and only a little over 1 per cent. was contributed by the Government. The Registrar for the Province in presenting his Report said: "The village Societies, therefore, either subscribed or obtained as deposits more than three-quarters of their funds. This, I consider, shows that they are a very healthy growth."‡

In the "Statement exhibiting the Moral and Material Progress and condition of India,"§ for the year 1911-12, it was reported that while only 35 rural Credit Societies existed in all India in the year 1905, there were 7,562 such Societies in 1912 (an increase of 2,605 in a year), with a working capital of £1,215,271. The Report states that one of the satisfactory features of the general development of the co-operative movement in India has been that "only a small proportion of the capital of the Societies has been advanced by the State." Of the total working capital (£2,240,000) of all Credit Societies, Central, Rural, and Urban, only £62,000—i.e., one thirty-sixth part—consisted of State funds in 1912.||

Although the economic and social conditions of India and Ireland differ in many aspects, yet there are many instructive lessons to be learnt from a study of the methods which have brought about the unique success of the co-operative credit movement in India. The two outstanding features of this movement have been (1) its reliance upon local and other deposits rather than upon State capital for the supply of its funds—this policy being largely rendered necessary by the attitude of the Government in regard to requests for further advances—and (2) the remarkable results achieved in a short space of time by the small staff of official Registrars, aided by voluntary workers, in the organisation and supervision of the Societies.¶

Absence of State Grants in Co-operative Credit movement in Canada.

588. In Canada co-operative credit has recently made rapid strides. There are now about 140 Credit Societies in that Dominion. M. Alphonse Desjardins, President of "La Caisse Populaire de Lévis," has been the most prominent promoter of this movement. We observe that in a memorandum prepared by him some years ago for the information of a Special Committee of the House of Commons, Ottawa, he deprecated the giving of direct financial assistance by the State to credit associations. "I believe," he said, "that such grant would be a fatal mistake, and would in Canada paralyse the energy necessary to the success of co-operative credit. . . . It would weaken the sense of self-help and responsibility on the part of the members of such associations, by providing them with funds which should always come from thrift, not from a paternal Providence—the Government."*

THE PRUSSIAN STATE CENTRAL BANK, AND CO-OPERATIVE CREDIT.

589. The special circumstances which gave rise in Germany to the establishment of the famous Prussian Central State Co-operative Bank, the most important central institution for aiding co-operative credit, have been already referred to in our Report. Founded

† Cd. 1747-1903, p. 7.

‡ *Proceedings of the Sixth Conference of Registrars of Co-operative Credit Societies*, held at Simla, October, 1912, pp. 5, 7.

§ A similar Statement is prepared annually, pursuant to Statute, by the India Office, from reports received from India.

|| *Vide* p. 252 of "Statement" referred to [Cd. 220-1913.]

¶ For a further account of the movement in India, see *People's Banks* (Wolff), ch. XVII., 1910 Edition.

* *Reports of the Special Committee of the House of Commons on an Act respecting Industrial and Co-operative Societies.* (Ottawa, 1907) pp. 149-150.

in 1895, it was granted by the Government a foundation capital of £250,000, by means of bonds bearing 3 per cent. interest. This capital has been increased on several occasions, and in March, 1912, stood at £3,790,000, including a comparatively small amount contributed by other Central Banks and Unions. Although under the direct administration and supervision of the State, the Bank is an independent corporate body. It provides working capital for, and receives deposits from, Central Banks and Unions of registered co-operative Societies, Loan Banks attached to Land Mortgage Credit Associations, various provincial credit institutions, public savings banks, &c.

Unlike the method of State aid to co-operative credit adopted in the past in Ireland, the Prussian Central Bank does not lend to Societies individually, but, save in exceptional cases, enters into relation with Societies only through the intermediate agency of Central Banks and Unions, of which over fifty have relations with it. The Prussian Bank fixes for every Central Bank a maximum limit of credit based upon the financial condition of the Central Bank, of the Societies composing it, and of their members.

The vast extent to which the business of the Prussian Central Bank has grown may be gathered from the fact that in 1911 its total turnover amounted to £820,000,000, while the number of members in the Societies doing business with the Bank was almost one million. Full particulars in regard to its management, principles of business, rates of interest, profits, &c., may be found in various recent publications;* as also the history of the relations, harmonious and otherwise, between the Bank and the various Co-operative Federations and Central Banks. A good deal of public attention in co-operative circles has been recently directed to the controversy between the Bank and the Raiffeisen Federation, leading to a complete rupture, and the withdrawal of the important Raiffeisen Central Loan Bank and the Societies of the Raiffeisen organisation from all business relations with the State Bank in 1911. Undoubtedly a large measure of dissatisfaction with some of the methods and regulations of the Bank (such as the rate of interest allowed on balances) exists in certain co-operative circles in Germany. Upon the merits of these matters your Committee are not in a position to express any useful opinion.

Important services rendered by the State Bank to the co-operative movement in Germany.

590. Even allowing for any genuine causes of complaint, this State institution has incontrovertibly done unique service to co-operation. As pointed out by Mr. Cahill, "No single factor has perhaps more signally contributed to the spread and internal development of agricultural co-operation in Prussia, and, indirectly by its example and influence, in the rest of Germany, than the Prussian Bank. It was created at a most opportune period—when the profits of agriculture had been greatly reduced and general depression was severely felt. It systematised for credit purposes the principle of liability upon which the whole co-operative structure of credit was built, and made all societies eligible for credit upon this basis. Being an efficient institution, with capital and with prestige in the money market, it constituted for co-operative societies a channel for credit, and by its facilities it accelerated their increase. Through its principle of dealing on special terms only with unions of societies, the formation of central provincial banks was stimulated, and their foundation or strengthening exercised a strong influence upon the increase and development of local societies. Proper business methods were impressed upon the central societies—it is a constant source of difficulty in co-operation that its leaders are apt to have much enthusiasm but little expert knowledge or business thoroughness, while the conditions often do not permit the payment of the wages of ability—and through them upon the affiliated societies.

"The Bank has thus been instrumental in no small measure in securing supplementary working capital for small and medium farmers on the same terms as for traders. But its greatest economic success consists in the fact that it has served to collect and concentrate the monetary returns of agriculturists, and to employ them profitably on their behalf while providing for their redistribution at need. As a result of Prussian co-operative organisation for purposes of agricultural credit, with the Prussian Bank at its head, the circulation of money, which tends to pass from the country into the towns and to be brought back through several profit-seeking intermediaries, is effected to a great extent within the district in which the value is created, to the advantage of the industry producing it."

* See *Report on Agricultural Credit and Co-operation in Germany*, pp. 273–291; *Outline of the European Co-operative Credit Systems*, International Institute of Agriculture, Rome, 1913, pp. 36–38; *People's Banks*, H. W. Wolff, 1910, pp. 189–220; *Bulletin of the Bureau of Economic and Social Intelligence*, International Institute of Agriculture, Rome, October, 1912, pp. 3–22; *The Central Co-operative Bank of Prussia from 1895 to 1905*, Official Memoir, Berlin, 1906; *Agricultural Co-operation and Rural Credit in Europe* (Senate Document, 214), pp. 415–419.

The Prussian Bank probably represents the safest form of State aid to co-operative credit.

591. If extensive State aid be though necessary or desirable for the promotion of co-operative credit, it seems probable that the Prussian State Central Bank furnishes an illustration of the type of agency by which such assistance can best be administered. When dealing with Central Credit institutions, we have given our reasons for recommending that no Central Bank or Central Credit Society should be established in Ireland at the present stage of the movement—although it is possible that later on such an organisation may prove a necessity. The admitted success attained by the Prussian State Bank does not, in our view, furnish any argument for the giving of direct financial aid by the State in Ireland to Credit Societies. There is a wide difference in principle between the administration of State assistance through the agency of an elaborately organised and financially strong State Bank, founded at an advanced stage of the movement, and the granting by the State of loans direct to local Credit Societies.

Paras. 433, 446.

STATE AID TO CO-OPERATIVE CREDIT IN FRANCE.

592. The lavish financial aid furnished through State channels is a marked feature of co-operative credit in France and renders this movement in many respects unique in its methods and organisation. A concise description of the system adopted will be found in the Memorandum upon "*Agricultural Credit in France*"* kindly supplied to us by M. Picard, Secretary of the Bank of France. The State has placed at the disposal of the Regional (or District) Banks (about 100 in number, and corresponding to some extent to Central Banks in other countries) large sums of money which the Bank of France is under an obligation to pay to the State as a condition of the renewal of its privileges.

A law of 1897 laid down that the Bank must advance to the State, without interest, to the end of the year 1920 a loan of £1,600,000, together with an annual payment of not less than £80,000, based upon the business done by the Bank. The actual amount paid yearly to the State varies from £120,000 to over £200,000. Between 1897 and 1911 the total annual payments amounted to almost £2,500,000. Out of these funds, the State makes advances, without interest, to the Regional Banks to the amount of four times their paid-up capital, for a period of five years subject to renewals—a system which M. Dufourmantelle rightly describes as "subsidising a still youthful agricultural credit with gratuitous official capital." A total of over £5,000,000 has already been obtained from the Bank of France, of which only £1,600,000 is finally repayable to the Bank.

Defects of the French system of State Advances.

593. In spite of the large amount of success attained, the trifling losses, and the small expenses of management, this system which, unlike that of Germany, seems to be built from the top downwards has, we believe, many serious defects. One of the greatest of these is the inevitable injury done to the thrift side of the movement by the facility with which State funds are obtainable. "Many Regional banks, trusting too much to State aid, are not sufficiently careful to make the quinquennial repayments of the loans advanced by the State, and neglect to form resources of their own, other than the sums carried automatically to the reserve, by making efforts to attract deposits. The remark also applies to some of the local banks. In view of this, closer Government supervision is recommended, and meanwhile the Ministry of Agriculture has reorganised and strengthened the service of inspection."† M. Henri Sagnier states that "a very large number of Regional Banks, which recognise that the State advances are temporary, and must be refunded, nevertheless act as if these loans were to be indefinitely renewed, and do not concern themselves sufficiently with the inevitable repayment."‡ In the ten years from 1900 to 1909, only 6 per cent. of the sum of almost £2,000,000 lent to the Regional Banks had been repaid to the State.

We note that in an article on this subject written so recently as February last,§ M. Sagnier renews his complaint, and emphasizes the vital necessity of deposits being obtained by the Regional Banks so as to enable the State loans to be dispensed with. He states that of 95 Regional Banks in the year 1909, only 49 had any deposits, and of these, 11 Banks held almost the entire amount. We have seen that a precisely similar attitude towards State loans has been adopted by a number of Credit Societies in Ireland; and that, as in the French Regional Banks, the greater portion of the deposits are held by a limited number of Societies.

Paras. 557-8,
367-8.

* Reproduced as Appendix 4 to Minutes of Evidence. See also *Le Crédit Agricole en France* (H. Sagnier); *Outline of the European Co-operative Credit Systems*, (Rome, 1913), pp. 54-61.; *General Theory of Co-operative Credit in France and other Countries* (M. Dufourmantelle); *People's Banks* (H. W. Wolff), pp. 411-460.

† *An Outline of the European Co-operative Credit Systems*, (Rome, 1913), p. 60.

‡ *Le Crédit Agricole*, p. 141.

§ Article on "*Le Crédit Agricole et les Dépôts*" in the *Journal d'Agriculture Pratique*, February, 1914.

594. The French system also often leads to local Societies lending to their borrowers at too low rates of interest, thus retarding the accumulation of Reserve Funds, and leading at times to losses on the working of Societies. Nor is the value of money brought home sufficiently to the individual borrower if apparently inexhaustible State funds are thus available at low rates. The Ministry of Agriculture seems to have taken action from time to time with a view to impressing upon the Regional and local Banks the need for forming Reserve Funds, and lending at proper rates of interest.* In the Durand Banks, which are on strict Raiffeisen lines and do not seek aid from State funds, the business is conducted almost entirely upon local deposits.

Another defect upon which some French writers have dwelt is that, while the Credit Societies are increasing in number under the system of State-aid above described, the credit provided is not reaching to the extent anticipated the small people for whom it was chiefly intended.

J. R. Cahill,
1894-50

We have considered other forms of State aid to rural credit to be found in operation in Continental countries, but have not space to refer to them. The systems represented by the Prussian State Central Bank and by the organisation adopted in France may be taken as the most instructive illustrations of two strongly contrasted methods of administering State assistance.

DESIRABILITY OF A GRADUAL WITHDRAWAL OF STATE LOANS FROM CREDIT SOCIETIES.

595. On the whole, in spite of the small losses actually incurred by the State in connection with advances to the co-operative credit movement in Ireland, your Committee cannot regard the system of these advances as having worked satisfactorily. These loans have had in many cases an undoubtedly injurious effect upon the thrift side of the movement: they have also entailed a considerable amount of legal action and other pressure to enforce upon Societies the fulfilment of their obligations—in most instances long after the period for the repayment of the State advances had expired. After careful consideration of the many aspects of this problem, we have arrived at the conclusion that, in spite of the benefits conferred in individual cases by the making of these State loans, the disadvantages of this course greatly outweigh the advantages.

Paras. 557-565

We recommend therefore that the advances now outstanding should be recalled by the Department of Agriculture and the Congested Districts Board, by a system of gradual repayments spread over a convenient term, say 18 months or 2 years, so as to give ample opportunity to the Credit Societies concerned to adapt their arrangements accordingly. We believe that a portion of the funds now lent by the State could with more real advantage to the progress of the rural credit movement be expended in greatly strengthening the provision for the audit and inspection of the scattered Societies. Our experience during the Inquiry fully corroborates the views of those writers who urge that facilities for obtaining State funds as a source of capital for Credit Societies often tend to weaken the true spirit of self-help, and lead to an undesirable dependence upon State aid, which is foreign to co-operative ideals.

We may point out that the total capital of the Societies in the year 1913 was about £62,000, of which approximately £6,500 belonged to the Department of Agriculture, and £5,000 to the Congested Districts Board. Even if these sums were at once entirely withdrawn—a course not suggested by us—there would still remain a capital of about £50,500, including Bank overdrafts, *i.e.*, the Societies' present funds would be diminished by less than one-fifth.

State Loans might be allowed to remain with Societies in very exceptional cases.

596. In view of the undoubted benefits conferred in exceptional cases in poorer districts by the utilisation of State loans—cases in which the withdrawal of this aid might prove a real hardship to the members who had continuously made good use of the money—we consider that both the Department of Agriculture and the Congested Districts Board, in the exercise of their discretion, might allow such loans to remain with Societies of the type referred to, on receiving clear proof annually that (1) beneficial use was being made of the funds and (2) that there was no reasonable prospect of the Society obtaining capital by means of local deposits or a Joint Stock Bank overdraft. Such cases would, however, be very exceptional; we include this proviso in our recommendation merely to avoid the

* See report of discussion at a meeting of the Commission for the distribution of funds to Regional Banks, held on 31st March, 1914, at which a sharp cleavage of opinion was manifest on the subject of a Rule ordering all Regional Banks to regulate their discount rate by that of the Bank of France. (*Journal d'Agriculture Pratique*, 2nd April, 1914, p. 427.)

risk of causing possible hardship by too stringent an application of the principle of the withdrawal of State advances.

Paras. 642-4.

If a Credit Society be run on satisfactory lines, although it be small and in a poor district, there should not be much difficulty in arranging—if necessary, through the proposed Agricultural Credit Section of the Department of Agriculture with its Advisory Committee—for a Bank overdraft of suitable amount. Such an arrangement would in our view be decidedly preferable to allowing State funds to remain with the Society, and would have the advantage that interest would be paid by the Society to the Bank only on the amount actually out on loan from time to time with borrowers.

Any State Advances allowed to remain should be at a rate not less than $3\frac{1}{2}$ per cent.

Para. 386.

597. In order to encourage the reception of deposits at the proposed rate of $3\frac{1}{2}$ per cent. and also the negotiation of Joint Stock Bank overdrafts, we recommend that any State advances allowed to remain with a Credit Society by either the Department of Agriculture or the Congested Districts Board should not be at a lower rate than $3\frac{1}{2}$ per cent. The full reasons for this proposal will be found in the Section of our Report dealing with the deposits of Societies.

CONCLUSIONS.

Paras. 545-6.

598. Our conclusions and recommendations in regard to the making of advances from State funds for the assistance of co-operative credit may be summarised as follows :—

Paras. 547-556.

(a) Extreme differences of opinion as to the desirability of co-operative credit organisations accepting any financial aid from the State have existed from the beginning of the movement. The varying conditions of different countries have led to considerable diversity of methods in administering such aid.

Paras. 554, 579-84.

(b) In Ireland a comparatively large amount in State loans has been advanced directly to Credit Societies, the Department of Agriculture having lent over £18,500 for the purpose and the Congested Districts Board, £7,000. In the year 1907 almost £19,000 of the funds of the Societies consisted of State money, as compared with £17,000 in deposits. In 1911 these figures were £13,000 and £27,000 respectively, a very desirable change.

Paras. 557-65.

(c) In many cases the Societies have come to look upon the State loans as permanent grants ; while the gathering in of local deposits has frequently been retarded, or altogether prevented, by the possession of State funds at the low rate of 3 or $3\frac{1}{2}$ per cent.

Paras. 566-578.

(d) It is unsatisfactory to find that legal action in the case of 29 Societies out of 121, and pressure in 43 other cases, were necessary in order to obtain repayment of State loans, usually long after they had fallen due. In only three cases, however, in thirteen years have loans (amounting to a total of £151) to Credit Societies been written off as irrecoverable.

(e) The result of an inspection in 1910 of 103 Societies holding loans from the Department of Agriculture showed that 22 per cent. of these Societies were regarded as “satisfactory,” 35 per cent. as “fair,” and 43 per cent. as “unsatisfactory.” We believe that these figures would probably represent approximately the character of the existing Societies as a whole.

Paras. 585-94.

(f) The method of making State advances direct to local Credit Societies is in many respects an unsatisfactory one, and is not found, as far as we can ascertain, in the countries where co-operative credit has been most successful, such aid being usually given through the agency of Central Banks or similar intervening institutions.

Para. 595.

(g) The experience of other countries proves that while much can be accomplished by a well-organised administration of State financial aid to co-operative credit (as in the case of the Prussian State Central Bank), there are many drawbacks attached to any system which tends (as would seem to be largely the case in France) to an undue dependence upon State funds too easily obtained as a source of capital, and leads to a consequent weakening of the spirit of self-help.

Paras. 596-7.

(h) We recommend that the advances now outstanding with Credit Societies in Ireland from the Department of Agriculture and the Congested Districts Board should be gradually withdrawn. The local Committees concerned should be urged to secure as far as possible local deposits in lieu of the State loans thus withdrawn, and to arrange for Bank overdrafts where such do not now exist.

(i) In very exceptional cases, where owing to the poverty or remoteness of the district, or other similar causes, there is no reasonable prospect of local deposits being obtained or a bank overdraft arranged, and where at the same time beneficial use is made of the money, the State loan might be allowed to remain with a Society, but should be subject to renewal annually. Such loans should bear interest at the rate of at least $3\frac{1}{2}$ per cent.

(k) THE INSPECTION AND AUDIT OF CREDIT SOCIETIES.

If there has been one aspect of the co-operative credit movement which more than any other has impressed itself upon the attention of your Committee, it is the paramount importance of an effective and regular system of inspection and audit of the Societies. Without this, all efforts to establish the movement on a sound and lasting basis are, we believe, foredoomed to failure. The greater the original expectations created by the formation of numbers of rural Societies, the greater will be the disappointment due to their inevitable collapse if they are not subjected periodically to the supervision and inspection—stringent but sympathetic—of some outside and independent authority. “It is very much better that if a fault be assumed, there should be excessive enquiry than that there should be too little. For checking and control are as the breath of life to co-operative banking.”*

IMPORTANCE ATTACHED TO INSPECTION AND AUDIT IN THE GERMAN CO-OPERATIVE MOVEMENT.

599. As might be inferred from the remarkable success of the rural credit movement in Germany, the co-operative leaders of that country have from the very beginning attached the highest value to a regular and thorough-going system of inspection and audit of the work of the local Societies. The Congress of the Imperial Federation at Strassburg in 1908 passed the following resolution :—

“Auditing constitutes the indispensable basis not only for the internal growth of the individual society, but also for the development and progress of all rural co-operation.

“In view of the immense importance of audit all Unions should devote the greatest attention to its further organisation and should not neglect any means that appear calculated to bring about its increased efficiency.”†

Audit at the Office of a Credit Society.

600. One group of Co-operative Unions relies almost entirely upon a full examination at the offices of the local Society of its books and accounts and the general conduct of its affairs. The auditors examine on the spot every item of payment and withdrawal; the balance sheet and accounts are looked into minutely; and even the solvency of the persons who act as sureties for borrowers is investigated. The view of the State in Germany in regard to the nature of audit is seen from the preamble to the Co-operative Societies Act, 1889 (as amended in 1896), which lays down that: “The periodical audit is to be by no means limited to a mere accountancy audit of the balance sheets and the books of the society The investigation of the auditor must be essentially directed to the practical side of the conduct of the business and the principles applied therein, as well as to the working of the organs of administration and to the other departments of activity of the society.”‡

There is, however, another form of audit on the spot which is known as “administration” or “legal” audit, i.e., an audit which aims merely at fulfilling the provisions of the Co-operative Societies Act and of the Articles of Association of the particular Society concerned. Most of the independent provincial Unions affiliated to the Imperial Federation content themselves with this administration audit, under which “the auditor has solely to ascertain whether the committee of management and the board of supervision observe the provisions of the law and of the articles of association, and exercise the prudence of ordinary business men in their conduct of the business of the society; with the conduct of the business itself he has no concern.”

Audit at Central Offices of Unions.

601. But most of the Unions which carry out this legal audit at the offices of the Societies provide, in addition, facilities for audit at their own Central offices. Their Congress in 1899 resolved that “it appears necessary in the interest of the sound development of the societies, and in order to supplement the legal administrative audit, to introduce periodical minute audits of accounts, and the Congress recommends the national and provincial Unions to establish departments for the audit of the accounts of the Societies.”§ Although this central audit is not compulsory on the affiliated Societies, a large proportion

* *Co-operative Banking*. H. W. Wolff, p. 221.

† *Report on Agricultural Credit and Co-operation in Germany*, p. 259.

‡ *Ibid*, p. 252.

§ *Ibid*, p. 254.

of the Societies are glad to make use of the assistance thus furnished in having their affairs subjected to this detailed accountancy scrutiny. In some Unions 70, 80, and even 90 per cent. of the Societies voluntarily send up their books for audit.

Scheme of Audit framed by the Raiffeisen Federation.

602. The Raiffeisen Federation, on the other hand, which advocates a minute and detailed audit at the offices of the local Societies, and does not confine itself to a "legal" audit, has not introduced the system of audit at headquarters. Other Unions, in addition to the twelve Unions of the Raiffeisen Federation, take the same view, on the ground that audit at headquarters, with only written material available, is much more difficult than an audit carried out locally; that the help which local officials would gain educationally from conferences with the auditors on various points in connection with the conduct of the Society's business is, to a large extent, lost in the case of a central audit; that the auditing body itself gains useful knowledge of local conditions by an audit on the spot; while the Societies in turn, by coming into personal touch with the auditors, are more likely to benefit by the assistance and advice of the latter.

The scheme of audit framed by the Raiffeisen Federation in 1908 is reproduced as an Appendix to Mr. Cahill's Report, and furnishes a useful illustration of the extreme care taken to specify minutely the duties of Auditors and of Unions in safeguarding the conduct of the Co-operative Societies.*

An official circular was issued in 1897 by the Prussian Minister for Home Affairs, laying down certain regulations as to the matters to be looked into by auditors of registered Co-operative Societies.†

BOARDS OF SUPERVISION IN GERMAN CREDIT SOCIETIES.

603. In addition to the above-mentioned carefully planned scheme of audit and inspection carried out by central bodies, a German Credit Society has the added safeguard afforded within the borders of the Society itself by the Board of Supervision, an important part of the local organisation. This Board is responsible for the supervision and control of the Committee of Management of the Society. Its functions are thus described in the German Co-operative Societies Act (Section 38):—

"The Board of Supervision must supervise the Committee of Management in its conduct of business in all branches of administration, and to this end must keep itself informed of the position of the affairs of the society. It may at any time require a report from the Committee upon the state of business, and may itself, or through members deputed by it, examine the books and papers of the Society, as well as verify the cash in the till and the stock of securities, bills, and goods. It must examine the yearly statement, the balance sheet, and the proposals for division of profits and losses, and, before the passing of the balance sheet, report to the General Meeting upon these points.

"It must summon a General Meeting when such action is required in the interests of the Society. Further duties of the Board shall be fixed by the articles of association. The members of the Board may not delegate the exercise of their functions."

So influential are the functions entrusted to this Board that it is empowered in the exercise of its own discretion provisionally to suspend members of the Committee, pending the decision of a General Meeting of the Society. It can, in the interim, take the necessary steps for the temporary carrying on of the Society's business. The members must exercise the prudence of ordinary business men, and those who neglect their duties are liable severally and collectively for any losses caused thereby; nor may they transfer the exercise of their duties to other persons.‡

Duties of Boards of Supervision.

604. The various duties of the Boards of Supervision are fully set forth in the Model Articles of the Raiffeisen Federation.§ The examination by the Board of the books, vouchers, cash in hand, &c., must take place four times a year at fixed dates, and at least once a year without notice being given. The Board may, moreover, at any time demand a report from the Committee of Management concerning the affairs of the Society; and credit grants to a member of the Committee or to the Secretary require the Board's assent. In regard to the inspection and audit duties of the Board, the Model Articles provide very definite instructions as to the more important matters to be dealt with. Similar duties are laid upon the local Boards of Supervision by the Model Articles of the Imperial Federation.||

**Report on Agricultural Credit and Co-operation in Germany*, Appendices, pp. 193-5.

†*Ibid*, pp. 252-3.

‡See *German Co-operative Societies Act*, 1889, as amended in 1896 (translation of), Section 38, 40, and 41; Appendices to above Report, pp. 6 and 7.

§*Ibid*, p. 100.

||*Ibid*, pp. 110-111.

Frequent apathy of Boards of Supervision in Germany.

605. Although the Boards of Supervision in German Credit Societies should prove a most valuable safeguard, yet in practice it would seem that some difficulty exists in persuading them to carry out their appointed duties. "That the Board of Supervision is liable to view its duties rather lightly is apparent from the repeated comments of auditors and the attention given by the Unions to urging greater activity on their part. Members of the Board are found to be too ready to leave things to the Committee, and to accept its advice without much enquiry. Their apathy is due to many causes, among which perhaps the most important are the disinclination to examine too closely the work done by persons with whom they are in neighbourly relations, and the fact that many have but little business knowledge, while a proportion of the members of the Boards are often elected to office as lending local prestige to the Society. A certain general supervision is, however, in most cases assured by the responsibility attaching to the members to make good all losses shown to be due to their failure to carry out their duties 'with the prudence of ordinary business men.' "* The most substantial members of a Society, such as large and medium land owners, clergymen, officials, &c., naturally form, as a rule, the personnel of these Boards of Supervision.

Evidence of Mr. H. W. Wolff in favour of Boards of Supervision.

606. The importance of the functions of these Boards was laid stress upon by Mr. 7251-2 Henry Wolff in his evidence before us. He said:—

"In all systems they select a Committee; but they have also a Council of Supervision which corresponds to the Board of Management of a joint stock bank. The Committee corresponds to the Managing Director. Formerly the Council of the Society selected this Executive Committee from among its own members. The law of '89 altered that. It insisted that these two Boards must be entirely distinct—that no member of the Council should be a member also of the Committee and *vice versa*. The Committee are sometimes, in a small Society, led into temptation.

Q. "They get into closer connection with the members? A. Yes; they meet the members almost daily, and say, 'So-and-so is a good fellow, and why should we refuse him a loan?' But where you have a Council of Supervision to overhaul every three months what the Committee has done and pick holes in their action, it is a different thing altogether. The Committee will then tell the applicant, 'We cannot do what you ask. We shall be called to account by the Council of Supervision.' For that Council of Supervision, in its turn, they have got a Union inspection. . . . Of course, in every new country we have the difficulty to contend with of forming the two bodies spoken of, and more particularly in the early days when everything seems prosperous, and people don't see any danger, people become sanguine, and ask, 'Why should we have a Council?' I have been met with that objection in England. They don't see the necessity of the Council. Wherever things have gone wrong, however, the cause has invariably been proved to be the absence of the Council, or defects in its work."

Mr. Wolff's objection to the appointment of a Supervising Board or Council in a Credit Society being left an optional matter is further seen from the following passage from his writings: "The Committee has its sense of responsibility kept keenly alive by the existence of the Council, which is specially appointed to make it do its duty, and which is an absolutely indispensable feature in every co-operative bank. Those who put it into their rules that there *may* be a Council, though they may not be aware of it, go miles and miles away from the true Raiffeisen and every other co-operative principle. In *every* kind of co-operative bank there must be a Council to check the Committee, overhaul all its work and prevent its dealing out your money carelessly or without taking sufficient security. No amount of auditing, no amount of superior inspection from outside, will replace such work. Both the other checks are useful. But inspection by the Council, which represents local knowledge and interested responsibility, which reports to the supreme tribunal, that is, the General Meeting of members, and which is to ascertain, not if the Committee has exceeded its discretion or not, but if it has exercised its discretion judiciously and with due regard to the safety of members, immeasurably outweighs both in value."†

Provision in I.A.O.S. Rules for Council of Control.

607. The I.A.O.S. Rules make provision for the formation of a Council of Control,‡ a body presumably modelled upon the German Boards of Supervision. Under these Rules the appointment of such a Council is entirely optional, being left to the discretion of the General Meeting. No instance was brought under our notice by witnesses of a Council being in active operation in any Credit Society in Ireland, though we understand that in some instances such Council has been appointed. Obviously one main reason

*Report on Agricultural Credit and Co-operation in Germany, pp. 97-8.

†Co-operative Banks in Agriculture, p. 11. See also Co-operative Banking, p. 40.

‡See Rule VIII., Appendix 22 to Minutes of Evidence.

for the absence from Irish Societies of this Council is the lack in many localities of suitable men to constitute the membership both of a Committee of Management and of a Council.

We notice that the I.A.O.S., in their 1908 Report, referred to the question of appointing Councils of Control :—

“ The consideration of possible sources of loss and of other defects in the working of Societies emphasises the importance of each Society having its affairs periodically examined and reviewed. Provision for this is made under the Rules by the appointment of a Council of Control, but in most cases no such Council does, in point of fact, exist. Some Societies at their General Meetings nominate the I.A.O.S. to fulfil this function for them, and, of course, the Organisers and Auditor appointed by the I.A.O.S. render indispensable service in this way. There seems, however, no reason why a Council filled by local people taking a constant interest in co-operative work should not supplement this help, and urge on the Societies the importance of carrying on their business in the most business-like spirit.”

Improbability of Councils of Control being operative in Irish Credit Societies.

608. There is no doubt but that a local Supervising Council, if it properly carried out its functions, would prove of very considerable assistance in keeping the affairs of a Credit Society straight. We feel certain, however, that the value of the Council would in Ireland be much diminished by personal considerations similar to those which have caused the inactivity of so many Boards of Supervision in the German Societies, especially the unwillingness to enquire too closely into the work done by their neighbours and friends on the Committee. On the whole, while fully recognising the potential advantages of an active Supervising Council or Board in each Society, we are forced to the conclusion that in the case of the great majority of Credit Societies formed, or likely to be formed, in Ireland, the formation of such a body is a counsel of perfection, and that it would, even if created, be largely inoperative. Nor is there, as we have said, material in many rural districts for two strong and independent bodies, composed of different individuals, available within the membership of one Society.

We recommend accordingly that the revised Rules should omit the provision for the appointment of a Council of Control in a Credit Society. If there be no likelihood of the supposed safeguard proving anything but illusory in actual practice, more harm than good is, in our opinion, done by its nominal existence, which would merely tend to weaken to some extent the sense of responsibility in the members of the Committee of Management.*

EXISTING AUDIT ARRANGEMENTS FOR CREDIT SOCIETIES IN IRELAND.

609. The subject of audit is dealt with in the following Rule issued by the I.A.O.S. :—

“ The Committee of Management shall, once at least in every year, submit the accounts, together with a general statement of the same, and all necessary vouchers up to the 31st December then last, for audit either to one of the Public Auditors appointed under the *Friendly Societies Act*, or to two or more persons appointed as auditors by the members at the Annual General Meeting each year, and shall lay before every such meeting a balance sheet showing the receipts and expenditure, funds and effects of the Society, together with a statement of the affairs of the Society since the last ordinary meeting, and of their then condition. Such auditors shall have access to all the books and accounts of the Society, and shall examine every balance sheet and Annual Return of the receipts and expenditure, funds and effects of the Society, and shall verify the same with the accounts and vouchers relating thereto, and shall either sign the same as found by them to be correct, duly vouched, and in accordance with law, or shall specially report to the meeting of the Society before which the same is laid, in what respects they find it incorrect, unvouched, or not in accordance with law.”†

Undesirability of Audit being entrusted to two local persons appointed by the Society.

610. The *Friendly Societies Act* upon which this Rule is based is in many respects, as we have shown elsewhere, unsuitable for regulating the constitution of Credit Societies. Section 26 of that Act directs that the audit of a Society's affairs shall be carried out annually either by one of the Public Auditors appointed under the Act, or by “ two or more persons appointed as the rules of the Society or bank provide.” An audit of this last-mentioned nature would in the great majority of Credit Societies be in our opinion absolutely worthless ; but the option given by the Act need not be embodied in the Rules of a Society.

* Your Committee note that their opinion in regard to the sufficiency of one Committee in Irish Credit Societies is in accordance with the view expressed some time ago by Dr. Heiligenstadt, President of the Prussian Central State Co-operative Bank, who, in commenting upon the Rules for Credit Societies issued by the I.A.O.S., stated that in his opinion “ one Committee to superintend, and one Treasurer or Secretary who should conduct the business, which is exceedingly simple, ought to be amply sufficient.” (See *Notes on Agricultural Co-operation and Co-operative Agricultural Credit in Germany*, by Mr. H. de F. Montgomery, D. L., p 52).

†See Rule XVII., Appendix 22 to Minutes of Evidence.

As pointed out to us by the Registrar of Friendly Societies for Ireland, the above section of the Act, permitting this audit, was intended to be applicable to ordinary Friendly Societies, such audit being rather in the nature of a valuation for the purpose of seeing that assets were able to pay the scale of sick benefits allowed than an audit of the affairs of a banking Society. He said: "That is a bad system. The ordinary Friendly Society appoints two auditors who are very often humble men who know nothing about auditing."

D. O'C. Miley,
1215, 1272.

Having regard to Mr. Miley's experience in connection with Credit Societies in Ireland, considerable weight must be attached to his opinion on such matters as the audit and inspection of these bodies. He said:—

"I have known it happen in connection with companies that things are taken for granted; and cash in hands of the treasurer is taken for granted very often instead of being counted. It is a simple thing to count the cash. The great vice of auditing is taking things for granted. My idea of auditing is that nothing should be taken for granted, and that the auditor should audit the accounts as if he were ignorant of everything—that he should not understand B until A has been explained to him. I would urge that there should be a recommendation about stringent rules as to the method of auditing, and that the methods of auditing applicable to big firms which, I think, are wrong because they take too much for granted, should not apply to these Societies. There should be nothing taken for granted, and everything should be examined as if it were wrong."

1216.

In view of the plea sometimes used that it is unreasonable and indeed impossible to apply strict business and commercial methods in the case of rural Credit Societies we learned with interest that, in the opinion of the Registrar of Friendly Societies, the auditing of Credit Societies should be carried out in even a stricter manner in some respects than the auditing of business firms.

16744.

Similar objections to the present option were expressed by Rev. J. G. Digges, M.A., of Farnaught Credit Society, who said:—"I do not think that it is at all satisfactory that it should be open to such societies to have their auditing done by any two of their members. It is not always possible to find two, or even one, in the membership sufficiently practised at accounts and auditing to safeguard the members and depositors."

Under the Act the appointment of auditors rests entirely with the Societies themselves who, as a rule, select the Public Auditor recommended by the I.A.O.S.; one reason being that the scale of charges is very low, the I.A.O.S. undertaking the work at a loss. In some cases, however, the Societies have, in the exercise of their discretion, appointed two of their own members to act. In his evidence on this point Mr. T. Porter said:—

A. Swain, 4628.

"You will see that under the rules the auditor may be one of the Public Auditors, or an audit may be performed by any two people nominated by the Credit Society. That is a most dangerous thing, and it should not be allowed. I have known a society to appoint two most incompetent people to audit the accounts; and I believe that such banks should not have the power to have an audit carried out except by a Public Auditor."

1883-5.

Q. Whether it is the law or the rule, you think it is bad? A. Yes. It is most dangerous, and we have had experience of it in connection with banks to which the Department granted money. It is a most dangerous rule, and one that ought not to exist."

Granting of right to appoint auditors rests with the State in Germany.

611. No such possibility of the blind leading the blind in this essential matter of audit is permitted in the German Co-operative Societies Act, which lays down that the audit of the Societies must be conducted by "an expert auditor who is not a member of the Society." Nor is the choice of the auditor left to the individual local Society; he must be appointed by the Union to which the Society is affiliated. Even this safeguard is not considered sufficient, for the State reserves to itself the giving of the power to the Co-operative Unions to appoint auditors. The Act provides that "the granting of the right to appoint auditors rests with the central authority of the Federal State, except when the area of the Union extends over several Federal States, when it rests with the Federal Council. Alterations in the Articles of the Union must be transmitted to the respective authorities mentioned in the preceding sentence."

The right of appointing auditors can be withdrawn from the Union by the Government if the Union is guilty of a breach of the law endangering the public welfare, pursues objects not expressed in or within the meaning of its articles, or is not competent to fulfil its audit duties. The State authority is also entitled to send a representative to the Annual General Meeting of the Audit Union.* Where Societies are not affiliated to a Union, the court within whose jurisdiction the Society lies appoints the auditor. "The Committee of Management of the Society must ask for the appointment to be made. A nomination takes place after the higher authority has given its opinion regarding the person proposed. If the authority concurs with the proposal

*Report on Agricultural Credit and Co-operation in Germany, p. 230.

Paras. 603-6

made by the Society such person is to be appointed as auditor." The Imperial Chancellor is also authorised to issue general regulations, for the drawing up of the auditors' reports.*

In addition to this well-organised scheme of audit by Unions, under the authorisation of the State, are the provisions for local inspection by the Boards of Supervision who are placed over the Committee of Management in the Societies.

Contrast between the effectiveness of audit arrangements in the German and Irish Co-operative movement.

612. When one compares the well-considered machinery in Germany for ensuring the effective audit of German Credit Societies—namely, a Board of Supervision in each Society; expert auditors appointed by the Union, under the authorisation of the Federal State; and the appointment of an auditor by the local courts where a Society belongs to no Union—with the I.A.O.S. Rule allowing a Society, comprised mostly of small farmers, many of them entirely unacquainted with book-keeping or accounts, to appoint, if they so desire, two of their own members, or two of their neighbours, as auditors of the Society's financial transactions, the contrast is, to say the least, a striking one. Nor can the important lesson thus taught be explained away or minimised by allusions to the characteristics of the German people, with their leaning towards bureaucracy and official intervention.

One of the fruits of this safeguarding of the affairs of German Co-operative Societies by regular and effective supervision and audit, under the final authority of the State, is seen in the wonderful success and stability of the movement, and the remarkably small proportion of failures which have taken place. In 16 years only 19 rural Credit Societies failed in Germany out of a total of over 15,000 such Societies. Recent disastrous failures in Hesse, due largely to carelessness in management and supervision, and to unwise investment of funds, are referred to by us elsewhere.

See paras.
404-9, 430-1.

Co-operation in Saxony revived by legislative safeguards.

613. The following extract from a communication from the delegate of the United States, International Institute of Agriculture, Rome, to the Chairman of the American Commission for the Investigation of Agricultural Co-operation in Europe† illustrates the importance of Government supervision of Credit Societies from the past history of these Societies in Saxony. "The need for national government safeguard is clearly indicated in the statement made to the American Commission at the Dresden hearing (June 22, 1913), which, in speaking of co-operative credit societies before national law was enacted for their safeguarding, says:—'All these societies did a good business . . . until a crash came in 1873 and swept away the Vorschuss Verein with it—many were rendered bankrupt, others forced to go into liquidation. . . . In this way the further life of such societies practically ceased in Saxony for the next 20 years or so; but in 1889 came the great German Imperial law, which is to be thanked for the splendid revival of co-operative societies in Germany.' This law provides for the rigorous Government supervision of all co-operative credit societies."

See para. 316

THE AUDIT OF CREDIT SOCIETIES IN INDIA.

614. In India, where the rural credit movement has made such rapid progress in recent years, audit arrangements are also carefully safeguarded by the State. The Co-operative Societies Act, 1912, provides for annual audit of Societies by the Registrar or by some person authorized by him in writing. Here the intervention of the State, it will be seen, in regard to the audit is more direct than in Germany: for the Registrars, who are officials appointed by the local Governments, are empowered to carry out the audit themselves, or to appoint deputies to act as auditors. The provisions of the Act in this respect follow the strong recommendations of the influential Committee which reported in 1903.‡

Your Committee need hardly say they do not infer that, because Government responsibility for the audit of co-operative Credit Societies has been found so beneficial in India, it should therefore be adopted in Ireland. There is a vast difference between an Indian ryot and an Irish farmer. But we cannot ignore the fact that in several countries where rural credit has proved most successful and lasting, the State, directly or indirectly, has

Paras. 586-7

* *Vide* translation of *German Co-operative Societies Act*, Sections 53, 57, 61, 64, in Appendices to above Report, pp. 8, 9.

† Published as Senate Document, No. 123, Washington, 63rd Congress, 1st Session.

‡ *Report of the Committee on the Establishment of Co-operative Credit Societies in India*, 1903 (Cd. 1747), pp. 8, 9.

assumed a considerable share of responsibility for audit and supervision arrangements, and in several instances has undertaken, with conspicuous success, the direct organising of rural Credit Societies.

Recommended removal from I.A.O.S. Rules of option given to appoint other than Public Auditors.

615. We recommend strongly that the option given to Societies under the existing I.A.O.S. Rules of appointing two or more persons to act as auditors should be definitely taken away. It is open, we understand, to any Society to pass a revised rule, omitting the existing provision for such audit, and thus leaving audit by a public auditor the only way of complying with the Act. The whole question of audit should be satisfactorily dealt with in any legislation which may be found necessary in regard to rural credit in Ireland.* In our opinion the selection of a public auditor should not be left to the local Societies, but should lie, as in Germany, within the discretion of a supervising body.

ARRANGEMENTS OF I.A.O.S. FOR THE AUDIT OF CREDIT SOCIETIES.

616. Prior to the year 1908 the accounts of Credit Societies appear to have been audited by the I.A.O.S. free of charge, but in that year the Societies were informed that a fee of £1 1s. would be charged in the case of a Society whose annual business exceeded £1,000, and 10s. 6d. in other cases.† In order to obviate the delay which had occurred owing to a large number of Societies sending up their books simultaneously for audit, Societies were informed that in future a post card would be sent by the I.A.O.S. auditors to a Society when they were in a position to examine the books of that particular Society; the books should on receipt of this notice be forwarded without delay, and the form of Annual Return for the Registrar of Friendly Societies should at the same time be sent to the I.A.O.S., with certain specified figures. By the adoption of this plan the congestion and delay which were wont to take place in previous years seem to have been almost entirely removed, though considerable delays are at times apparently still inevitable.

Delays caused by sending Societies' books in incomplete state to the office of I.A.O.S. for audit.

617. The incomplete state in which some of the books are sent up by the local Secretaries necessarily retards the progress of audit. Mr. Swain informed us that "there are still a large number of Secretaries who either do not understand or are incompetent to prepare the necessary information." Some witnesses complained that their books were kept in Dublin occasionally for six or eight weeks, while others stated that the books were returned to them within a fortnight. Rev. M. McGeown, P.P., representing the Greencastle Credit Society, stated that the accounts of that Society

4657.

J. Bohan, 11504.
R. P. Wallace,
11813.
S. Morris, 13468.
P. C. O'Donoghue,
17133.
14756-7.

"Were audited by the Agricultural Organisation Society up to last year, and they kept our books too long, and we changed to a private auditor who has an office in Omagh.

Q. "You find the local audit more convenient? A. Yes. Our books were generally kept two or three months by the I.A.O.S., and in the meantime the Secretary had to keep the accounts on paper until the books were returned."

Cases came under our notice where the lending and borrowing transactions of a Society were entirely suspended in the absence of the books.

The Registrar of Friendly Societies informed us that one of the excuses made to him by Secretaries for not forwarding their Annual Returns in time was that the books had been sent up to the I.A.O.S. for audit. If the instructions of the I.A.O.S. were followed, however, the form of Annual Return would be sent to the I.A.O.S. along with the books, for completion by the auditor, who told us that in most cases this form was filled up by him, and not by the Secretary of the Society.

Para. 509.

Recommendation that Audit should be carried out at Office of the local Credit Society.

618. On the whole, we have no reason to believe that there is unavoidable delay on the part of the I.A.O.S. in carrying out the audit or in returning the books of the Societies. Every effort seems to be made to carry out the audit effectively, so far as this can be done by careful examination of the books and accounts sent up; but we cannot consider this method as at all providing an adequate safeguard. In our opinion an audit on the spot is essential for the proper security of the interests of depositors and members, and of any outside creditors of the Societies.

*We observe that in an Act of 1913 (3 and 4 Geo. V., c. 31 s. 2), amending the *Industrial and Provident Societies Act* of 1893, the power of appointing under the Rules two or more persons as auditors under that Act has been removed; only Public Auditors can now be appointed by an Industrial and Provident Society to carry out the duties of audit.

†The loss incurred by the I.A.O.S. in the year 1911, on the audit of Credit Societies, amounted to £56, not including the cost of postage, &c.

This view is strongly supported by the evidence of the Registrar of Friendly Societies for Ireland and other competent witnesses intimately acquainted with the working of co-operative credit. Mr. Miley, in particular, emphasised the paramount necessity for the cash on hand being actually counted by the auditor, and suggested that there should be a county audit, on somewhat similar lines to that carried out by the Local Government Board Auditors. Amongst the documents forwarded by the Societies to the I.A.O.S. with the books for audit is a certificate from the local Treasurer as to the correctness of the cash on hands on the 31st December, and the I.A.O.S. have no alternative but to accept this certificate. When the amount of cash on hands seems rather large, particularly if the Society has an overdraft with the Joint Stock Bank, reference is made to the subject in the auditor's report.

We fully concur with the views of Mr. Mennell, who said :—

" I do not think it was ever contemplated that a single body would undertake the audit of such a large number of Societies under the *Friendly Societies Act* ; but as it is, the I.A.O.S. have undertaken the audit of a great number of these Societies ; and the result is that they are overwhelmed with work from 31st December. The audit of some of these banks does not take place until long after that. I know the books have been kept in Dublin, and they cannot deal with them. Frequently the books were not written up to date. The auditor had to do a large amount of accountancy work—adding up, and almost writing up the books in some cases. He would strike his balance and verify all he could . . .

" I do not think that any certificate of any officer of the bank would be of any use at all. I am perfectly certain if I filled up a certificate stating so much cash in hands that the Committee would sign it, so I do not think that is any safeguard. The best safeguard would be to compel each Credit Society to have an account with a joint stock bank, and you have the bank's lodgments and receipts."

Main advantages of Audit at office of Society.

619. The main advantages of an audit on the spot are :—

(a). The cash on hands would be counted by the auditor, a proceeding which is eminently desirable. Even in cases where the business of the Society is carried on entirely by means of cheques on Joint Stock Banks, the counting of the petty cash is a useful safeguard.

(b). The delay and inconvenience caused to the operations of a Society by the despatch of its books and accounts to Dublin for audit would be avoided.

(c). The Secretary, Treasurer, and any members of the Committee who so desired, would be present to explain to the auditor any matters on which he required information, thus obviating correspondence.

(d). The auditor, in his turn, would be in a position to give useful advice to the Society on the various points raised ; in this way the audit would be much more educative in its effect than it can possibly be under the present arrangements.

We have no hesitation, therefore, in recommending that the audit of a Credit Society's books and accounts should be carried out at the office of the Society.

Recommendation in favour of cost of Audit in certain cases being borne, wholly or in part, by the State.

620. The main obstacle to the carrying out of an audit on the spot has been the expense of such a course, which would naturally be very much greater, owing to the travelling and subsistence expenses of the auditors, than audit carried out centrally, which entails only the cost of despatching the books by post. It would not be feasible, we think, for the great majority of the Credit Societies, with their present rate of annual profit, to contribute more than a small sum, if anything, towards such expenditure. But if the rates of interest suggested by your Committee, both on deposits and on loans, be adopted, it would be possible, we believe, in many cases for Societies to pay a moderate annual fee for auditing and inspection, in addition to a small remuneration to their Secretary.

Your Committee are of opinion, from the weight of the evidence furnished at their Inquiry, and also from a careful study of the responsibility, direct or indirect, taken by the State in other countries in regard to the audit of Credit Societies, that the cost of the audit of Credit Societies in Ireland is one which might well be borne, wholly or in greater part, by the State ; but such aid should be given only in the case of those smaller Societies whose profits do not admit of the cost being defrayed from their own funds.

We do not recommend that direct audit should be undertaken by the State itself, although this is known elsewhere. The employment of public auditors, and the payment, in whole or in part, of the audit fees in certain cases by the Credit Section of the Department of Agriculture, would be in our opinion the most satisfactory arrangement. Possibly expense and time would be saved, as the movement grew, by employing separate auditing firms for specified districts in the country ; such localised audit would probably be rendered inevitable by the carrying out of our proposal in favour of the annual audit taking place at the offices of each Society. This district audit would, to some extent, resemble the County audit favoured by the Registrar of Friendly Societies for Ireland.

1219.

A. Swain, 4693.

1482-4.

Paras. 385, 499,
537, 538.

1219.

The fact that several Credit Societies have already found it more convenient to make local arrangements with auditing firms to carry out the work, so as to avoid the delays caused by a central audit in Dublin, is an additional argument in favour of establishing a well-considered scheme of district audit, under central supervision.

Legal question as to right of Inspection of a Society's Books by Creditors.

621. An important question has come under our notice as to the interpretation to be placed upon the following Rule (of the I.A.O.S. Rules for Credit Societies) dealing with the subject of the right of inspection of the Society's books.

"The books and accounts of the Society shall be open to the inspection of any member or person having an interest in the funds of the Society at the registered office or at any place where the same are kept, and it shall be the duty of the Secretary to produce them for inspection if called upon, but no such member or person, unless he be an officer of the Society, or be authorised by a resolution of the Society to do so, shall have the right to inspect the loan or deposit account of any other member without the written consent of such member." *

Two Credit Societies which had money on loan from the Department of Agriculture refused some years ago to allow the Department's Inspector to examine their books. This action raised the question as to whether the Department, although a creditor of these Societies for the amounts advanced, had "an interest in the funds of the Society," under the above-quoted Rule, and would therefore be entitled to inspect the books. The legal opinion obtained intimated that the question was an important one, which could be raised either by injunction or mandamus, and that it seemed doubtful whether the Department had an "interest in the funds of the Society" within the meaning of the *Friendly Societies Act*; that there was no case on the point, but a Court would lean to a favourable construction. Para. 566.

We understand that the matter has not yet been raised in the Courts, but that the Department at once recalled their loans in the two cases referred to—in our opinion the wisest and indeed the only course open to them under the circumstances. It seems desirable that in the interests of all who have advanced, or who may advance, money to Credit Societies, including Joint Stock Banks, depositors, and State Departments, this important point as to the right of inspection of the books and accounts by creditors should be made quite clear—if necessary by a decision of the Courts.

We see no reason, however, for a revision of the proviso in the above-quoted Rule that the loan or deposit account of a member is not to be open to the inspection of outside creditors without the written consent of such member, unless by special resolution of the Society authorising such course. The power of inspection of personal accounts is naturally not so important as that of inspecting the Society's books and general accounts.

Evidence disapproving of State Supervision of Credit Societies.

622. We shall now consider, as briefly as possible, the evidence given at our Inquiry by witnesses representing the Irish co-operative movement, and by others, on the relation of the State to the audit, inspection, and supervision of Credit Societies. While many witnesses favoured, several witnesses strongly opposed any State intervention in the sphere of co-operative credit, beyond, perhaps, payment of the expenses of audit. Captain Loftus Bryan, nominated by the Wexford Co-operative Council, said:—

18026, 18041.

"I don't believe in inspection by the Department or by other outside sources. I believe inspection should be provided by the people themselves—by these Societies themselves, and absolutely under their control. I thoroughly disapprove of any suggestion for allowing the Department's officials, or any outside officials, to exercise control. In addition to that, the expense of doing so would be altogether out of proportion to the cost at which efficient control could be exercised through the medium of a local Federation. . . . No doubt you could get excellent inspection from a central Department, but it would be at a cost altogether out of proportion to the results achieved. You also take away the development of the mental characteristics of the people, which the whole co-operative movement is designed to increase—those characteristics which are particularly wanting in Ireland: a certain amount of backbone to resist a friend, and drop on your enemy when you get him in a tight corner."

Mr. E. A. Johnson, nominated by the same Council, approved of the appointment of auditors by the State, but not of State supervision. Mr. Miley, the Registrar of Friendly Societies for Ireland, expressed himself as against a direct State audit, on the ground of its expense, but favoured a State contribution towards the cost of audit by a responsible firm. 17563.
1256.

*See Rule XVI. (c). Appendix 22 to Minutes of Evidence.

1782, 1790-2.

623. Mr. Anderson, Secretary of the I.A.O.S., in referring to the question of audit and inspection, said :—

" In regard to this inspection I hold very strongly to the opinion that it ought to be done by the Organisation Society, not that I have the slightest dislike to the idea of the Societies being inspected by anyone else who wants to inspect them, but that the real inspection should be done by the Organisation Society and its officials, who are the officials of the movement to which these Societies belong, and to whom they contribute. The Societies ought to feel that they had a right to call upon us. Of course a thorough-going understanding of the system would be very necessary . . .

" I think I am right in saying that if the inspection was solely carried on by an outside body, not by the Organisation Society, that the societies, committees, and secretaries would very soon try and throw a lot of responsibility on the inspecting body, and that they would be rather slow to bother about its affairs, and leave things to the Inspector, and that we do not want at all. If we inspected them we would be always urging the committees to greater activity. It would be the duty of our Inspector to call the Committee together, to write his report there and then, and explain it in detail, so that they might understand.

Q. " Would you have any objection to the auditor being outside ? A. Not at all.

Q. " It would be desirable that the auditor should be absolutely apart ? A. Yes."

7181

17465.

L. A. Bryan,

18041.

H. O'Byrne,

18697.

Mr. H. W. Wolff, well-known as an opponent of State assistance to co-operation ; Rev. T. Phelan, P.P., and a few other witnesses, also expressed disapproval of State inspection or supervision of Credit Societies.

Evidence in favour of State supervision and inspection of Credit Societies.

624. On the other hand, numerous witnesses, especially those directly representing local Credit Societies, strongly advocated that the audit and inspection of Credit Societies should be placed under the control of the Department of Agriculture. We have space for only a few typical extracts.

7779.

The Very Rev. Canon Burke, P.P., who was nominated by the County Clare Committee of Agriculture to give evidence, stated :—

" Some of these Co-operative Societies have not been a great success in this county, and it is, I think, due to want of supervision and management . . . I would like to see not only a public audit yearly, but also quarterly inspection, and also surprise visits, to see that things are going right. I would suggest that the Department should do this. Just as their inspectors drop into the classes at present, they should also visit the agricultural banks, and that would be a great means of securing regularity of accounts."

16832.

The Rev. J. R. Digges, M.A., member of the Farnaught Credit Society, said :—" As far as my Society is concerned, and those Societies I am familiar with, we would welcome the Department's inspector, and it would probably be a great advantage to us." Rev. M. McGeown, P.P., nominated by the County Tyrone Committee of Agriculture, and ex-Chairman of Greencastle Credit Society—one of the most successful Societies in Ireland, possessing a membership of 200 and a capital of £880 consisting of deposits, with no State loans—said :—

14735.

" I do not know of any other existing system of credit more useful to the farmers, and if your Committee come to the conclusion that these banks are useful to the farmers, I would respectfully suggest that you recommend the Government to do three things to assist these banks :—(1) to audit their accounts free of charge ; (2) to supply their stationery ; (3) to have a regular system of inspection by competent men."

11813, 11848.

Mr. R. P. Wallace, J.P., Ex-Chairman of the Cloonmorris Credit Society, expressed the view that—

" Inspection should be made by an officer from the Department of Agriculture. Inspection by officers from the I.A.O.S. or other organising societies is useless, as they have no power to enforce their rules or recommendations, and the members of the Committee know this, and take little notice of their visits.

Q. " You would be in favour of the authority if it could be made strong enough without the Government ? A. I would."

Evidence on behalf of Malin Credit Society.

14404-14432.

625. Rev. J. Morris, P.P., a member of the flourishing Credit Society at Malin, County Donegal, a Society possessing over £1,200 in deposits, strongly favoured State supervision. He said :—" There is an audit ; but I would like to see a closer inspection from a Government Department with regard to all these facilities for loans, so that there would be a share of protection." This witness, in reply to further questions, favoured the limiting of deposits to the amount which could be lent out by the Society, and said that the Malin Society could obtain more deposits if such were desired.

Q. " If it be the case that you can get more money for the asking of it, what is the need of Government intervention ? A. For the purpose of protection and security."

Q. "Evidently the depositors in Malin are satisfied that they have protection and security? A. Many persons that are satisfied are in a very unsafe position. I am not speaking of our place but am answering your general question.

Q. "Evidently things are regulated in Malin so as to give the depositor every security? A. Everything is regulated to give the people confidence; but, perhaps those who are regulating the matter might require protection too, and a share of responsibility.

Q. "The reason you ask for Government intervention is to give the depositors security? A. That is not the sole reason why I ask it.

Q. "What is the reason? A. To give protection both to the Society and to the borrowers, and to protect all, and to see that all are protected, and that there is no chance left for neglect or carelessness. I am speaking of the general principle.

Q. "Don't you think the training of the people who are conducting their own business may be a better means of giving security than by interposing Government intervention? A. Well, now, I don't wish to answer that question off-hand. That would be giving very small credit to the Government officials, and the Government system, and we should look to the Government for our protection.

Q. "Protection, yes; but not the conduct of your business? A. I did not ask for the conduct of our business. I only said closer inspection, half-yearly, or quarterly, to understand how the things are going on, and to see that they would have a share of responsibility, and that they would have the right to examine how things were done.

Q. "You would not give them any right whatever to direct the business at all? A. I would give them the right to partially direct, because giving them a share of the responsibility would necessarily imply that. I would give them a directive authority, but not the whole control.

Q. "But being the Government, you would give them a superior control? A. I would give them the right to step in when there was any neglect. They would not step in and thwart well-done work.

Q. "Suppose a Government official said—'you have to make loans in this way,' and your Committee said 'no, in our judgment that is not proper?' A. Supposing the Government official were competent, and that he was capable of giving a proper direction, I would say that the local Committee would likely be at fault in not accepting the wiser suggestion, and if the Government official would be inexperienced and devoid of capacity, I would say the sooner he took his stick and walked, the better it would be for the country."

H. Byrne, 15928.

J. Owens, 13558.
P. McBride, 14041.
Dr. Morrison,
14339-53.
J. McMaster,
14963-9.
J. McEldowney,
15113-6.
W. Stuart,
16321.
J. R. Walsh,
6018-9.
J. Dunlop,
16205-8.
J. McGeehan,
10557.
H. Doran, 4830.
Dr. Thompson,
14730.
S. Morris, 13525.
J. Conway, 9476-9.
Rev. J. O'Malley,
10714.
P. Dillon,
17680.
M. McNelis, 18588.
W. V. Coote, 12687
Etc.

It has been thought desirable to insert at some length these extracts from Father Morris' evidence on this particular question, owing to his close personal acquaintance with co-operative credit conditions, and to the great success of the Credit Society with which he is associated.

Mr. Henry Byrne, J.P., a farmer (nominated by the Co. Derry Committee of Agriculture) and a co-operative worker, informed us that Government supervision of Credit Societies was, in his opinion, an "absolute necessity" if the confidence of the farmers was to be won. Many other quotations from the evidence in favour of State responsibility for the supervision, audit, and inspection of Credit Societies in Ireland could be given did space permit (*see marginal references*), but the principal arguments used by witnesses are contained in the extracts given above.

Sir F. A. Nicholson on the functions of the State in relation to Credit Organisations.

626. Sir F. A. Nicholson, in dealing with the province of the State in regard to rural credit, emphasises the need for adequate supervision. His famous Report was written after an exhaustive study of rural credit systems in the countries of Europe and in America. In it he writes:—

"The State must assist the development of organized credit. The functions of the State in the matter of rural credit are considerable; it must remove all disabilities and obstacles which prevent lender and borrower from meeting on fairly equal terms; it must stimulate competition with the money-lender by suggesting and favouring the establishment of credit associations of various classes; it must legislate for the due formation and management of such associations, with a special leaning to co-operative associations as stimulative of essential national qualities; it should grant certain privileges, which cannot be safely entrusted to private individuals; it should provide for efficient supervision; and it may grant some moderate subventions, either as working or as mere starting funds."

"It is the duty of the State in all matters affecting the credit, thrift, providence and property of the poorer classes to take special precautions by legislative and executive supervision that such classes shall not only maintain their stability and independence, but shall be expressly stimulated and encouraged to take steps to provide through self and mutual help, the institutions which shall furnish credit, promote thrift, develop habits of providence, and safeguard property; *aider à faire*, not *laisser faire*, is the true method; true freedom of action depends not upon the abstention of Government from interference, but upon such interference as shall secure freedom of action and the certainty that each man shall be able to reap and secure the fruits of his own industry."*

* *Report Regarding the Possibility of Introducing Land and Agricultural Banks into the Madras Presidency.* (Madras), 1895, pp. 24, 39.

EFFECTIVE PUBLIC AID TO CO-OPERATIVE CREDIT IN GERMANY.

Paras. 589-591,
599-602.

627. Several useful lessons applicable to Ireland may, we believe, be learned from the action of the State in Germany in relation to co-operative credit.* We have referred elsewhere to the aid given by means of State advances (especially through the agency of the Prussian State Co-operative Bank), and to the State safeguards for the proper audit of Credit Societies. But in addition to intervention of this nature, the rural credit movement has received from the various State and Public bodies of Germany a great deal of valuable assistance in other directions, some of which may here be briefly indicated.

"State assistance assumed important dimensions only subsequent to the enactment of the Act of 1889. It usually took the form of small grants to cover the expenses of founding societies, contributions towards the cost of auditing by co-operative Unions and of propaganda, advances of capital to central banks at low rates, occasionally endowments of capital, or grants towards establishment expenses; in a few cases it took the form of assisting groups of societies to secure advantageous terms at banks; and throughout Germany public officials, especially the agricultural travelling inspectors and district governors, were urged to promote co-operation. The knowledge that the extension of agricultural co-operation was part of the general policy of the Government stimulated its officials to take an active interest in it; this is more especially true of such influential officials as district governors who, in the exercise of their duties are brought into contact with nearly every branch of public activity in the locality, and whose influence among the rural population is considerable, while the village school teachers, who are also State employees, were also encouraged to give their services. From these considerations it will be readily understood that the State has been an important factor in the development of rural co-operation in Germany.

"The general tendency has been apparent in recent years, in Prussia at all events, to reduce financial assistance to co-operative societies, or to give it with greater reserve, on the ground that the co-operative movement, having now passed out of its early difficulties and grown strong, is able to draw upon its own resources. But, as will be observed in reading this chapter, the effective assistance rendered to rural co-operation by the State in Germany generally is still very substantial."†

ACTION OF PRUSSIAN CHAMBERS OF AGRICULTURE IN RELATION TO CO-OPERATIVE CREDIT.

628. The Prussian Chambers of Agriculture render a considerable amount of aid in the promotion of co-operative credit. These bodies were established by an Act of 1894 which defined their functions as "the care of all matters pertaining to agriculture and forestry within their districts, and, to this end, the furtherance of all measures calculated to better the position of landowners, with especial regard to the more complete co-operative organisation of farmers."

"They are thus not merely to act as advisory bodies, but are entrusted with the duty of representing agricultural interests in general, and are to initiate measures for the furtherance of such interests. Their duties are: to foster the technical and economic progress of the agricultural area within their jurisdiction by the organisation of agricultural education and co-operation; to take part in the management of the corn exchanges and markets within their area, and to observe and collect market prices; the conduct of experiment stations; the organisation of measures for the improvement of horse, cattle, and poultry breeding, and fruit growing; to maintain exchanges for agricultural labour; and to adopt all other suitable measures. They are also designed to act as agencies for the distribution of State grants for agricultural purposes.

"The creation of these Chambers was due to the fact that the existing agricultural associations were not adequate to represent agricultural interests, whether political, economic, or technical, completely and with sufficient authority and prestige. Such associations as existed were voluntary; they often comprised members who had little to do with agriculture, and their funds were liable to be unstable and insufficient in amount. The State also felt the need of a fully representative organisation in various parts of the kingdom for purposes of advice on important agricultural matters, as well as for assisting in the execution of State policy as regards agriculture."‡

Membership of Prussian Chamber of Agriculture.

629. Membership of the Chambers of Agriculture is open only to persons cultivating land sufficient to provide them with their livelihood apart from other sources of income. But persons formerly engaged in agriculture who still reside in the district in which they were previously occupied in agricultural pursuits, persons who have served at least 10 years on the Board or as officials of Agricultural Associations or co-operative societies, and others who, though not occupiers of land, have rendered services to agriculture, can also be members. The members elected as representatives by district councils hold office for 6 years. The elected membership of a Chamber varies from 32 to 124, and Committees may be elected to carry on current business. Every agriculturist assessed for land tax of a certain amount must pay the rate levied for the support of the Chamber. The rates are collected with the land tax by the ordinary revenue officials; and the consent of the

* See *Report on Agricultural Credit and Co-operation in Germany*, pp. 266-291.

† *Ibid.*, p. 266.

‡ *Ibid.*, p. 272.

Minister of Agriculture is required if the rate levied exceeds $\frac{1}{2}$ per cent. of the land tax assessment. Grants for special agricultural purposes are also made to the Chambers by the State, £160,000 being thus allotted in the year 1909.

The Chambers employ a staff of travelling technical experts in cattle-breeding, horse-breeding, fruit-growing, poultry-farming, and in co-operation; they supply stallions and bulls to farmers on favourable terms. "They focus, in fact, the whole organisation of agriculture within their area, and promote the progress—both technical and economic—of agricultural interests generally which they officially represent." *

Close resemblance between County Committees of Agriculture in Ireland and Prussian Chambers of Agriculture.

630. We have entered into some detail in regard to the constitution and duties of the Prussian Chambers of Agriculture because of their striking resemblance in many respects to the County Committees of Agriculture and Technical Instruction which carry out in Ireland most of the agricultural schemes of the Department of Agriculture. Both in regard to establishment under an Act of Parliament; the representation of the agricultural industry; the carrying out of agricultural and technical schemes in their respective areas; the obtaining of funds partly from local rates and partly from State grants; the acting as channels for the distribution of State funds, and in various other aspects, the County Committees in Ireland are almost exact analogues of the Prussian Chambers. One striking difference is that the latter bodies by means of their Itinerant Instructors, and in other directions, do much to organise and promote agricultural co-operation (including co-operative credit); while in Ireland, as far as we know, the County Committees have not hitherto assisted in this sphere. In a few cases several years ago small grants were given to the I.A.O.S. by certain County Councils towards organising purposes.

J. R. Cahill,
18751 *et seq.*

See para. 289.

It is unlikely, we believe, that the Co. Committees of Agriculture would see their way to undertake responsibility in regard to agricultural co-operation of a productive or distributive nature, such as co-operative dairying or co-operative purchase and sale. But in the sphere of co-operative rural credit—a matter of such vital importance to the small agriculturists all over the country—we believe that many, if not all, of the County Committees would be willing to render valuable aid if a well-considered scheme were placed before them.

Agricultural Instructors as promoters of Rural Credit Societies in Germany.

631. As an illustration of the part played by the State and by agricultural instructors in Germany in promoting co-operation, we quote the following:—

"Not only by financial and other direct assistance, but also by its administrative policy, the State in Baden has sought to extend and develop co-operation among the rural classes. Its propaganda work has been of the utmost value. The sixteen agricultural instructors who are employed in winter at the agricultural schools, devote the remainder of the year to moving about in the country districts, advising the farmers and addressing village meetings upon suitable subjects; and they are especially instructed to promote co-operation among them. The first credit society in Baden was founded in 1873 by an agricultural teacher; and the writer met one ex-agricultural instructor, at that time secretary of the Baden Credit Union, who had personally founded about thirty societies. Public money, and money held upon trust, may be deposited temporarily with rural credit societies, provided the assent of the district representative of the Central Government is obtained. This mark of confidence reposed by the State has had a favourable effect in increasing the confidence of the country people in their village banks." †

Membership of Co. Committees of Agriculture in Ireland fully representative of farming interests.

632. A question arises as to the analogy between the Prussian Chambers of Agriculture and the County Committees of Agriculture in Ireland in respect of satisfactory representation of the agricultural industry. The qualifications required for membership in the Chambers have been already referred to. At our request, the Department of Agriculture have supplied us with a full Return based on information secured from each of the 33 County Committees of Agriculture and Technical Instruction in Ireland, showing in detail in each case the occupations of the members. It appears that in April, 1913, the total membership of the 33 Committees was 1,654, an average of 50 for each Committee. Analysis of the figures shows that farmers and agriculturists comprised almost 60 per cent. of the

* *Report on Agricultural Credit and Co-operation in Germany*, p. 273.

† *Ibid.*, p. 271.

membership (in only 5 per cent. of these cases was the farmer returned as being also a merchant), clergymen composed 18 per cent., and merchants and shopkeepers 12 per cent. of the total. Amongst the 5 per cent. recorded as "gentlemen," a good proportion are probably connected with agriculture.

It is safe to say therefore that between 60 and 70 per cent. of the members of the County Committees of Agriculture in Ireland directly represent agricultural interests. As non-agricultural technical instruction schemes are also carried out by these bodies, it would not be reasonable to expect all the members (as in the Prussian Chambers) to be directly connected with agriculture. But the difference between the two bodies in this respect is insignificant; our analysis proves that in constitution, as in the other aspects above-mentioned, they are, for all practical purposes, analogous organisations.

Suggested utilisation of Services of Agricultural Instructors in promoting Co-operative Credit.

633. During our Inquiry we received proof in all portions of the country of the appreciation by the small farmers of the valuable work of the Itinerant Instructors in Agriculture who are in close touch with the farmers, meeting them on their farms or in agricultural classes, and are thus fully conversant with their needs, including frequently their credit requirements. The advice of these Instructors is increasingly sought after, especially by the younger generation of farmers who are steadily breaking away from the traditional conservatism of their class, as they realise the benefits to be gained from up-to-date methods in the science and practice of farming.

In some cases, however, we found that through lack of capital, farmers were unable, although willing, to carry out the advice of the Instructors. A witness nominated by the Co. Carlow Committee of Agriculture stated:—"Farmers say to me that they have not money to follow the instructions of the Agricultural Instructor. . . . The majority of the small farmers don't go near the lectures (they say if they had the money to follow the instructions they would go), so they keep to the old system all the time. . . . I tried to get the instructions of the Department's Instructors carried out, but the people told me that it was for want of capital they were unable to take advantage of the lessons."

We suggest that some of the most capable of the Instructors in Agriculture should be allowed (with the consent of the County Committees under whose control they are) to undertake in favourable districts the establishment of Credit Societies organised under the proposed revised Rules. Before this step could be taken, a supply not only of the new Rules but also of an explanatory leaflet written in the simplest terms should be available for local distribution. In addition, the Instructor should himself have been made thoroughly acquainted with the principles, constitution and methods of a Co-operative Credit Society.

Seeing that these young men have themselves been practical small farmers or sons of farmers, and have in addition shown their capacity to qualify themselves on the technical as well as on the practical side of agriculture, and to impart that information to others, we have little doubt but that after some experience they would be in every way competent, from their frequent opportunities of meeting the farmers, and from close acquaintance with agricultural conditions in their districts, not only to judge as to the need for, and the prospects of success of a Credit Society, but also to organise such Society. This utilization of the services of Agricultural Instructors would be on the lines adopted with such success in Germany and other countries. In Baden, for instance, as already mentioned, the Agricultural Instructors establish Credit Societies; one of these officials personally founded thirty Societies.

The services of the Commercial Instructors working under the Department's Schemes in rural districts might also be availed of, when circumstances permitted.

INSTRUCTION GIVEN IN FARMERS' BOOK-KEEPING AND ACCOUNTS IN WINTER CLASSES AND AGRICULTURAL SCHOOLS.

634. We understand that already Itinerant Instructors in Agriculture give instruction, at the Winter Agricultural Classes, in Farm Account Keeping, which is part of the specified curriculum for these classes. This instruction includes "method of keeping a diary cash-book, and a record of credit transactions; farm valuations and stock-taking; balance sheets, their interpretation; estimates of the cost of various farm operations, &c." Similar education in the proper methods of keeping farming accounts is also imparted

J. O'Toole,
18344-5, 18362.

Para. 721.

See para. 631.

to the students in the various agricultural schools and colleges working under the Department of Agriculture ; while a Farm Account Book, specially suited for the use of small farmers, has been issued by the Department, in order to encourage the keeping of regular accounts.

The fact that at present the Instructors in Agriculture are thus assisting the rising generation of agriculturists in obtaining a competent knowledge of farming accounts, including credit transactions, is in our opinion an additional reason in favour of the services of these Instructors being also utilised in giving information as to the principles and methods of Agricultural Credit Societies. Such organising work need not, we believe, interfere in any way with the fulfilment of their ordinary duties : convenient opportunities could easily be taken to gather together the farmers of a parish for this special purpose.

Advantages of knowledge of Accounts on the part of Farmers.

635. We have referred elsewhere to the fact that one of the handicaps upon the agricultural industry in dealing with commercial banking institutions is the comparative absence of any system of farming accounts which would show, with an approach to accuracy, the financial position of the farmer. Any steps taken to encourage the adoption of a proper system of accounts by agriculturists are to be welcomed, as tending not only to facilitate the obtaining of commercial credit by the greatest of all industries, but also to enable farmers to estimate more accurately than they can do at present their general financial position. A further advantage (which is referred to in the Section dealing with the credit advanced by shopkeepers to farmers) is that small farmers, especially in the poorer districts, would with more knowledge of accounts be better able to realise exactly how they stand in the books of the shops with which they deal. Again, a wider knowledge of accounts among the farming classes would do much to remove the present difficulty in finding competent secretaries for Credit Societies.

Para. 23.

Paras. 176. 183.

Para. 542.

During our Inquiry several witnesses referred to the desirability of more attention being paid in rural Ireland to the teaching of book-keeping. For instance, Rev. M. Aherne, c.c., Youghal, said :—

“ You want secretaries to carry on the work of the societies, and if the schools don't teach book-keeping, you will not have an individual who understands the difference between debtor and creditor, and when you have to do with men ignorant of the elementary idea of book-keeping, it is hard to get them to conduct the business of a society, and it is difficult to get people in a district to undertake the work. We have at the close of the year our balance-sheet. There is not a single member of our society who understands that balance-sheet but myself. We have a very excellent school, and the boys who are educated there are educated much above the average of their class. In 1910, I wanted a secretary to run these two societies of ours, and I searched the whole district, but could not get a single man or boy who understood anything about book-keeping. A night school was established in the district, and that did an immensity of good. All the young men knew something about book-keeping in the following year. I think the National Board ought to be asked to pay more attention to the subject. It is at the foundation of successful agriculture. I cannot imagine any farmer being able to carry on his business on business lines without knowing something about book-keeping.”

Promotion of Agricultural Book-keeping in Switzerland.

636. Continental countries have been devoting increasing attention in recent years to the promotion of Agricultural Book-keeping among the farming classes. In Switzerland, for example, a number of the farmers keep their accounts under the control of a Central Bureau entitled the Swiss Peasants' Secretariat. The success which has attended Swiss researches on the profits of farming is said to be mainly due to : (1) the selection of a system of book-keeping which spares the farmer unnecessary writing and which enables him to balance his accounts correctly ; (2) uniform instruction—those who join the scheme must engage themselves by agreement to keep their books according to the methods indicated ; (3) the balancing of the books by a central office ; and (4) the examination and utilisation of the figures in the study of economic and scientific farming questions.

The system is based on four accounts, Farm, Household, Accessory Undertakings, and Consumption ; the Household account being distributed at the end of the year amongst the three other accounts in proportion to the number of persons maintained. The system shows the farmer's gross returns and expenses, the net income, the value of his labour, the interest his capital has produced, his household expenses and consumption, and the changes in his capital. The courses in book-keeping are announced in the agricultural and other papers ; travelling and other expenses are refunded to candidates taking part in a three days' course ; while diplomas and prizes are also awarded. During the first year each farmer is visited by an employee of the Secretariat, who checks the books, draws up on a uniform plan a brief description of the farm, and discusses all questions likely

to present difficulties. The expense of these researches amounts on an average to about £4 per annum per farm. The closing of the accounts is not entrusted to the farmers themselves, but to the central office, the task being much more complicated than in ordinary commercial book-keeping, owing chiefly to difficulties concerning valuations and the intimate connection between production and consumption in farming. The results of the simple closing of accounts are alone communicated to the farmer, showing the net returns and the income of the farm; but the central office also examines separately the various items of the gross revenue and expenses.*

Farm Book-keeping in Sweden.

637. In Sweden also, for the last ten years, farmers who wish to compete for State prizes have had to submit certain information in regard to their farms, which necessitates their adopting a well-regulated system of book-keeping. The law of 1910 which established taxation on capital and on income has also to a large extent rendered agricultural book-keeping compulsory, seeing that the farmer must in certain cases be prepared to confirm his declaration of income by means of properly kept books. During the last few years Bureaus of Agricultural Book-keeping have been established in several provinces by various associations. The sum of £900 is, in accordance with a resolution of Parliament, granted annually by the State to the Bureaus to which the farmers have entrusted the closing of their accounts, the Association concerned paying an equal sum. A large number of courses of book-keeping have also been organised throughout the country for the benefit of farmers, while simple agricultural book-keeping is frequently part of the programme in the schools.†

Similar steps to which we have not space to refer are being taken in other countries, a proof of the growing importance attached to the subject.

Desirability of enlisting interest of County Committees of Agriculture in Co-operative Credit.

638. In cases where it may not be found possible to avail of the services of the Itinerant Instructor in Agriculture to organise Credit Societies, an alternative method might prove advantageous. The whole time of a special Instructor might be utilised for the purpose of establishing Societies, reporting upon the prospects of the successful starting of Societies in various districts, and paying periodical visits of inspection to those Societies already created. The remuneration of such Inspector or Organiser might possibly be shared by the Co. Committees of Agriculture in whose districts his duties lay, the Department of Agriculture also contributing.

The association, as far as possible, of the Co. Committees of Agriculture in the responsibility for organising rural credit would do much, in our opinion, to arouse deeper interest in the importance of the movement, and to bring about its sound development. The defects due so often to over-dependence on the State—defects the seriousness of which we fully realise—would be thus largely obviated. We have recommended elsewhere the gradual withdrawal of State loans from Credit Societies, mainly because of the evidence which we received that such loans, while of much benefit in exceptional cases, had on the whole proved detrimental to progress on sound lines, and had discouraged the thrift side of the movement. Similarly, in order to arouse as much as possible of the sense of local responsibility and personal interest in the organisation and carrying on of the Credit Societies, we strongly recommend that those local bodies—composed, as we have seen, mainly of farmers—who have so successfully co-operated with the Department of Agriculture in various schemes for the development of the agriculture of the country in recent years, should now be invited to render further useful aid by assisting in the establishment of a system of credit adapted to the special needs of small agriculturists.

The risks attached to the premature creation of unsound Societies by the organisers, merely to show a record of apparent success, would, needless to say, require to be carefully guarded against. But competent supervision would obviate this danger.

Question of possible direct State Organisation of Co-operative Credit.

639. If it be not found feasible to adopt this plan sufficiently widely, we believe that the importance of the interests involved would fully justify the Department in directly employing a small staff of organisers of rural credit Societies. There is admittedly a

* See article by Professor Dr. Ernest Laur in *Monthly Bulletin of Agricultural Intelligence and of Plant Diseases*, International Institute of Agriculture, Rome, January, 1913, pages 13-16.

† See article by M. L. Nannesson, Professor at the School of Agriculture at Hvilan, Sweden, in the *Monthly Bulletin of Agricultural Intelligence and of Plant Diseases*, Rome, February, 1913, pp. 173-175.

very distinct line of demarcation between co-operative credit and other forms of co-operation. The only interests likely to be adversely affected by the success of a rural credit system would be those of the money-lenders and "trust" auctioneer, neither of whom would deserve, or receive, much sympathy. The Joint Stock Banks, as proved by their past action, are in full sympathy with the co-operative credit movement, which works in a field necessarily left largely untilld by these larger banking institutions.

Distinction drawn by Sir Horace Plunkett between Co-operative Credit and other forms of co-operative effort in relation to State organisation.

640. Your Committee note that the distinction between co-operative credit and other forms of co-operative effort in relation to State action has been pointed out by Sir Horace Plunkett. His Excellency Earl Grey, then Governor-General of Canada, in addressing in 1907 a Select Committee of the House of Commons at Ottawa, said :—

"I should like to quote one sentence from the speech of Sir Horace Plunkett at the last Annual General Meeting of the I.A.O.S. :—

"The provision of funds from public sources must be regarded as temporary. I make two exceptions. Co-operative Credit—a matter of vital concern to all farmers who intend to improve their system of agriculture, as they will have to adopt more tillage, with its corollary of winter-dairying, and also live stock insurance, both of which at a later stage, I think, might be directly organised by a Government Department, with a view to the gradual development of a scheme which will justify the financing of farmers' credit associations with public moneys on the lines followed in Germany and elsewhere abroad.' "*"

We are not aware as to the exact nature of the financing of Credit Societies with public moneys which Sir Horace Plunkett had in mind, *i.e.*, whether the suggested aid would be by means of direct loans to the Societies as in the past, or by advances made through a Central Bank or other similar organisation. But it is clear that he placed—in our opinion quite rightly—co-operative credit and co-operative live stock insurance in a different category from other branches of co-operative effort, and recognised the possibility of their direct organisation by a Government Department becoming desirable.

RECOMMENDATION OF DEPARTMENTAL COMMITTEE OF INQUIRY, 1907, IN FAVOUR OF A STATE AIDED SCHEME OF AGRICULTURAL CREDIT.

641. The Committee which inquired in 1906-7 into the constitution and work of the Department of Agriculture and Technical Instruction made the following important recommendation :—

"We concur in the view that the establishment of a sound system of agricultural credit, whereby a small farmer may obtain small loans at moderate interest, is of the most essential importance to agriculture, and that the experience both of Ireland and of other countries points to the possibility of the establishment of such a system. At present, great as has been the success of the societies organised by the I.A.O.S., a far more comprehensive system seems required, and could only be organised, if at all, by the aid of the State, after a very careful inquiry both as regards the principles and details of the scheme. We are satisfied that if such a scheme is to be successful, and the evidence before us leads us to think it practicable, it must be based on sound economic principles. We believe that such State aid would be one of the most effective and useful forms of assistance to agriculture."†

This strong recommendation in favour of State assistance in the organising of a comprehensive agricultural credit scheme for Ireland is contained in the Majority Report of the above Committee, which was signed by four out of the five members, *i.e.*, by Sir Kenelm E. Digby, K.C.B., late Under Secretary of State for the Home Department (Chairman); the Hon. John Dryden, late Minister of Agriculture in Ontario; Mr. F. G. Ogilvie (principal Assistant-Secretary for Technology in the Board of Education, Whitehall); and Mr. Stephen J. Brown (late Chairman of County Kildare Co. Council).

PROPOSED AGRICULTURAL CREDIT SECTION OF DEPARTMENT OF AGRICULTURE.

642. In the section dealing with long-term loans, including loans made by State Departments for agricultural purposes, it has been shown that during its comparatively short period of existence, and with limited funds for the purpose, the Department of Agriculture has lent to farmers a sum of over £100,000.‡ The Department, therefore, has already operated to a considerable extent—and with very satisfactory results in respect of punctual repayment—in the sphere of agricultural credit. We have recommended that the useful system

* See *Report of the Special Committee of the House of Commons (Ottawa), on Bill respecting Industrial and Co-operative Societies*, p. 97.

† *Report of the Department of Agriculture and Technical Instruction (Ireland) Inquiry Committee* [Cd. 3572—1907], para. 120.

‡ See Table on page 318 (which does not include the figures for the year 1913-14). In addition, over £61,000 has been lent by the Department to fishermen; see footnote to page 242.

Paras. 691-4

Paras. 272-3.

of loans now made for such purposes as drainage, reclamation, fencing, &c., by the Board of Works should be re-organised, and co-ordinated with the loan system of the Department, the advice of whose agricultural instructors might with advantage often be sought before applications from farmers for such loans are sanctioned. In considering the question of Loan Fund Societies, we have expressed the opinion that the most satisfactory way of dealing with these Societies in view of their unsuitability for rural credit requirements, and having regard to the financial position of the Loan Fund Board, would be their transference to the control of the Department, and their transformation as far as possible into Credit Societies.

Para. 737.

There seem, therefore, to be ample grounds for the general co-ordination of these various credit functions under a Credit Section attached to the Department. To such Credit Section should be also entrusted the general supervision of the re-organised scheme of Rural Credit Societies. The employment of one or two competent Inspectors, who would visit the local Societies from time to time, and would also supervise the work of any Organisers and Instructors, would be necessary. The duties of such Inspectors would be very important, seeing that on a sound inspection and audit system the success of the movement would so largely depend. The work of the auditors should also be supervised, as far as necessary, by the proposed Credit Section.

Ample scope in Ireland for operations of Credit Societies under I.A.O.S. and those under State Supervision.

643. It seems very probable from the evidence we have received that some of the existing Credit Societies may desire to be included under the proposed revised scheme. Any Societies which wished to follow this course should, in our opinion, be granted permission only on their definite adoption of the revised Rules, whether on the basis of unlimited or limited liability. It is of vital necessity to the success of the scheme that no unsound Societies be admitted under it, and that as much care be taken in the admission of Societies to participation in the scheme as in the admission of individual members to those Societies.

Your Committee think it well to make clear that, in our opinion, there can be no objection to the existence in Ireland of two types of Agricultural Credit Societies, one affiliated with the I.A.O.S., and working under its Rules, and the other operating in connection with the proposed Agricultural Credit Section of the Department of Agriculture and Technical Instruction with its Advisory Committee. In Germany and other countries differing systems of co-operative credit are to be found at work side by side. In some respects friendly rivalry between two systems, each with its own distinctive merits, may be productive of good rather than otherwise; the test of time will serve to bring out the advantages or disadvantages of each method. There is, moreover, ample scope in the undeveloped field of rural credit in Ireland for the work both of Credit Societies which may prefer to remain outside the scheme of State supervision outlined by us, and of Societies organised in connection with such scheme.

PROPOSED ADVISORY COMMITTEE ON AGRICULTURAL CREDIT.

644. It is possible that in connection with the suggested Agricultural Credit Section of the Department a small Advisory Committee would be advantageous. This Committee might be given functions similar to those of the Department's existing Advisory Committees, such as those on Live Stock, Flax, etc., and would be called together when matters arose necessitating their advice being sought. On this Committee might sit representatives of the Credit and Loan Fund Societies, the Joint Stock Banks, the I.A.O.S., the Congested Districts Board, and the Board of Works, but the total number of the Committee need not exceed eight or ten persons. Such an advisory body would help to co-ordinate the interests of all taking part in the organisation and working of the scheme, and would be in a position, we feel sure, from time to time to suggest modifications or improvements pointed out by the experience of the members.

Under the scheme outlined above we believe that the fullest possible share of local control and responsibility would be placed upon the Credit Societies, while at the same time the outside supervision, audit, and inspection, so vitally essential to the success of the movement, would be afforded. By means of their representatives on the Advisory Committee, through periodical touch with the Inspectors, and by direct communication with the Credit Section, the local Societies would have ample opportunities for making suggestions should they so desire. Beyond arranging for effective inspection and audit,

and seeing that the Rules are adhered to, there should be no interference with local initiative and action ; for a great desideratum in all co-operative effort is that those participating should realise that success or failure is mainly dependent upon themselves. The evidence received from various portions of the country goes to show that, so far from State action for purposes of securing proper supervision of the rural Credit Societies being probably resented as undue interference with a self-help movement, supervision of this nature would, to a very wide extent, be welcomed as supplying to the movement a much needed element of security, reducing to a minimum the risk of loss through carelessness or breach of Rules, and furnishing to local Committees a strong outside and independent support in any action found necessary by them to enforce the Rules upon members.

Paras. 624-5

Possibility of later development of a Co-operative Union.

645. It is possible that as the system developed and strong Credit Societies became as numerous as they are now scarce, the creation of a Union on the model of those of Germany and other countries would become desirable. When dealing with the subject of Central Co-operative Banks, we have, while not recommending the establishment of such an organisation at present, referred to the possibility of its being found advantageous to adopt this course in the future. Our views in regard to the need for a Central Union for purposes of audit and inspection may be conveyed in similar terms. We are convinced that the time has not yet come for the creation of these central bodies. We may add that even if they should subsequently be found necessary, the final authority in regard to the delegation of the power of audit should, as in Germany, remain with the State. The Department of Agriculture should be in a position to satisfy itself as to the audit and inspection being efficiently performed.

See para. 446.

We have alluded elsewhere to the strong action which the State has recently found itself compelled to take in parts of Germany in supervising co-operative credit organisations, owing to the failure of two well-known co-operative Central Banks.

See paras. 406-9, 430-1.

NECESSITY FOR SOME SYSTEM OF ENFORCING IMPROVED METHODS ON UNSATISFACTORY SOCIETIES.

646. The I.A.O.S. may decide to continue the work of organising Credit Societies, under the existing or other Rules, rather than to aid in the carrying out of the scheme outlined by your Committee. Their representatives freely admitted to us that, mainly through lack of funds, the inspection of Societies which had been possible in the past was much less thorough than they would have desired. But even in cases where their organisers detected and reported serious defects, the I.A.O.S. have not been in a position to do more than point out these defects to the local Committees, and in certain cases where State funds were in the Society's possession, threaten that the withdrawal of these loans would be recommended. The I.A.O.S. also admit that they have been compelled to devote more attention to Societies whose operations enabled them to pay audit fees, than to the weak Societies whose finances did not permit of such expense, although the latter presumably required supervision much more than the larger societies.

R. A. Anderson, 1782.

We think it important to make quite clear that even if the I.A.O.S. were financially in a position to increase their staff of organisers and inspectors, and thus partially to remedy some of the admitted defects in past supervision, such a course would not, in our opinion, remove the most vital difficulties of the existing system, prominent among which is the lack of power to back up advice or to enforce improvement upon an ill-regulated Society. The I.A.O.S. may, in dealing with a recalcitrant Society, threaten to cancel its affiliation, but such a step has little terrors for many Societies ; some of them, indeed, even now pay no affiliation fees and have not, although still in operation, communicated for years with the parent body.

The functions of the Registrar of Friendly Societies in such a case are also very narrow, and are mainly confined to the final power of winding up the Society, should warnings remain unheeded. Such a course, however, would frequently be much too drastic, entailing as it would the extinction of a Society which might, in spite of some defects in working, be doing much good in its district.

Pressure used in past by threat of withdrawal of State Advances.

647. Admittedly no system which can be devised can force a careless and incompetent Secretary and Committee to carry out their functions efficiently ; and in extreme cases the winding up of the Society would be an unmixed blessing. But the great majority

of Societies would be amenable, we believe, to advice, backed up by some effective method of action if this advice were persistently ignored. Such pressure is made good use of on the Continent by the Central Banks, which by means of the cash nexus between them and the local Societies, and the threat of the possible withdrawal of their funds from the latter, are placed in a fairly strong position of authority. In Ireland, as we have seen, similar pressure has been brought to bear by the Department and the Congested Districts Board (often by the advice of the I.A.O.S.) on unsatisfactory Societies holding funds from these State institutions. But in future, if our proposals be adopted, the Societies will be mainly dependent, not upon State loans, but upon local deposits and Joint Stock Bank overdrafts.

Withdrawal of Bank Overdraft and Audit Fee in the case of unsatisfactory Societies.

648. The proposed Agricultural Credit Section of the Department of Agriculture would, with the aid of its Advisory Committee, be in a position to exert very considerable pressure where necessary on unsatisfactory affiliated Credit Societies; but if proper care be exercised in forming the Societies on a sound basis, with competent Secretaries, and if periodical inspection be afforded, we anticipate that proportionately few Societies will be found troublesome. Exceptions, however, are sure to occur; and the overdraft from the Joint Stock Bank, and other facilities, such as the payment of audit fees, should not be continued in the case of a Society which, in spite of personal advice from the Inspector, and written warnings from the Credit Section, failed to improve.

The threatened cancelling of the Bank overdraft would be equivalent in influence to the threatened withdrawal by a Central Bank or a State Department of funds advanced to a Credit Society. It would, therefore, be extremely desirable that all the Joint Stock Banks should be kept in touch, as far as necessary, with the developments of the co-operative credit movement. United action could thus be taken, which would prevent any Bank, through ignorance of the circumstances, being induced to advance to a Society an overdraft which had been withdrawn by another Bank.

649. It seems fairly certain that the threatened removal of the Bank overdraft would mean practically the enforced winding-up of a Society through lack of funds unless improvement took place, for depositors would not be slow in learning of the proposed action by the Bank, and would doubtless in many instances take steps to withdraw their deposits. As this would entail much trouble and loss to those who had borrowed from the Society, the Bank overdraft should not of course be withdrawn, nor withdrawal even threatened, save in the last resort. But the prevention due to the safeguards of supervision would be infinitely preferable to the doubtful cure of withdrawal of privileges.

We look forward to a wide extension of the existing satisfactory relations between the Banks and the Credit Societies in Ireland, and to a large increase in the present overdraft system. It seems very desirable, therefore, that instead of the present isolated action of individual branches of Banks in relation to individual Societies, some scheme of co-ordination should be devised on the lines indicated, by which any Joint Stock Bank could readily obtain authoritative information in regard to any Credit Society applying for an overdraft. By such means, the security offered to the Joint Stock Banks would be rendered largely indefeasible. This might possibly lead to some relaxation of the present arrangement under which the joint and several guarantee of seven or eight of the leading members of the Credit Society is required by the Banks before an overdraft is granted. Where more than 4 per cent. is now charged by Banks on overdrafts to the Societies, the rate might well, we think, be reduced to 4 per cent. by the Banks concerned, thus bringing their action into line with the course followed by the majority of these institutions.

Minimum of State intervention and maximum of local responsibility.

650. Your Committee see no reason why the percentage of Credit Societies in Ireland, given effective supervision and reorganised methods of the nature indicated in our Report, should reveal any larger proportion of failures than are shown in the co-operative credit movements of the Continent. Nor do any of our proposals, we believe, run counter to the important principle that a sound co-operative credit movement must as far as possible be based on a full development of the sense of local control and responsibility, combined with the minimum of State intervention necessary for the adequate protection of the small borrower and depositor. Of this, at any rate, we are convinced, from the evidence.

given at our Inquiry, that without State intervention and supervision of some sort there is little prospect of the development in Ireland of a system of rural credit for the small farmer and labourer upon a scale at all commensurate with the needs of the agricultural industry of the country.

CONCLUSIONS.

651. Our conclusions and recommendations in regard to the Audit, Inspection, and Supervision of Credit Societies in Ireland may be summarised as follows :—

(a) The remarkable success of the co-operative credit movement in Germany and other countries has been largely due to the exceedingly effective and stringent methods of audit and supervision adopted—methods laid down in such legislation as the Co-operative Societies Act of Germany and in the Model Articles of Association of the German Federations. Paras. 599-602, 611-614.

(b) The State assumes considerable responsibility in the countries where co-operative credit has been most successful for seeing that effective audit arrangements are in force, and that the Unions and other bodies are qualified to fulfil their duties in this respect.

(c) Local inspection and audit arrangements in the Credit Societies of the Continent are also carefully provided for, as for instance by the formation of Boards of Supervision in addition to Committees of Management. Paras. 603-6.

(d) Compared with the safeguards for the proper supervision and audit of Credit Societies adopted in other countries, those hitherto in force in Ireland have been comparatively defective. The *Friendly Societies Act*, under which the Irish Societies are registered, was not originally intended for the special requirements of Credit Societies, and cannot, therefore, bear comparison with such an Act as the German Co-operative Societies Act, specially framed for the purpose. Paras. 609, 610, 616.

(e) We recommend the entire abolition of the option given to a Credit Society under the existing Rules of appointing two persons chosen by the Society to act as Auditors. This can be accomplished, we understand, by omitting from the Rule the option allowed under the *Friendly Societies Acts*, and definitely providing that only the services of public auditors shall be availed of. Paras. 612-5.

(f) Useful as a Council of Control might prove in a Society, if successfully worked, we believe that in the great majority of cases in Ireland there would not be sufficient material in a Society's district to form such a Council in addition to the Committee of Management, and that even if created, it would not be likely to insist on fulfilling its functions. Provision for its appointment should, therefore, be omitted from the Rules. Paras. 607-8.

(g) The auditing of Credit Societies' books by the I.A.O.S. (as distinct from inspection) has, we believe, been carried out on the whole as effectively as could be expected in a system of central audit. But this system is not at all sufficient to meet the special needs of rural Credit Societies, has often entailed delays and inconvenience to the Societies, and lacks entirely the educative influence of an audit on the spot. Paras. 616-8.

(h) We recommend that all annual audits should take place at the office of the Society, when the auditor would be in a position to receive any necessary explanations from the Secretary and the Committee, while these latter in turn would benefit by any advice the auditor might think it desirable to give. The cash in hands should also be counted by the auditor, a most essential matter. Paras. 618-9.

(i) The State should not itself directly carry out the audit but should defray, in whole or in part, the cost of an annual audit by public auditors. This assistance should be given only in the case of those smaller Societies whose profits do not admit of their defraying such expenditure from their own funds. Such audit should, to avoid expense and loss of time, be carried out, when feasible, by auditors for specified areas. Para. 620.

(j) The legal power of any person or body who may advance funds to a Credit Society to inspect the books and accounts of the latter should be made clear. Para. 621.

(k) The County Committees of Agriculture in Ireland (like the analogous bodies, the Chambers of Agriculture, in Prussia) might, with much advantage, be associated with the organisation of rural credit in their sphere of operation, thus developing more local interest in a subject so intimately affecting the small agriculturists of the country. Paras. 627-633.

The Itinerant Instructors in Agriculture could, in approved cases, be made use of, after a short course of training, for establishing Credit Societies (following the precedent of the action of similar Instructors in Germany) Where the employment of the Agricul- Paras. 637-9.

tural Instructors is not feasible, special Instructors might be employed, each working in several counties, the County Committees and the Department of Agriculture sharing the cost of the remuneration.

Para. 640.

(l) There is, in our opinion, a distinct line of demarcation between co-operative credit and the productive and distributive spheres of co-operation; justifying in the former case State intervention for the purpose of safeguarding the interests of the small depositor.

Paras. 642-3.

We recommend that an Agricultural Credit Section of the Department of Agriculture should be formed, under the supervision of which would come (1) the extensive lending business at present carried on by the Department in connection with its various schemes of loans to agriculture; (2) the arrangements for co-ordination, as far as may seem necessary, of the Board of Works' schemes of loans for agricultural purposes with those of the Department; (3) the operations of Loan Fund Societies, whose re-organisation and transfer to the oversight of the Department has now become in our opinion needful; and (4) the Co-operative Credit Societies formed under the revised scheme outlined by us.

Such Agricultural Credit Section would be responsible for the periodical inspection of all affiliated Credit and Loan Fund Societies, and for suitable arrangements for audit by Public Auditors.

Para. 644.

(m) Attached to the Section should be a small Advisory Committee, composed of representatives of the affiliated Credit Societies and Loan Fund Societies, the Joint Stock Banks, the I.A.O.S., the Board of Works, and the Congested Districts Board. This would form a valuable co-ordinating body for the various interests concerned.

Paras. 646-9.

The Agricultural Credit Section, with the aid of this Advisory Committee, would be in a position to exercise strong pressure on any unsatisfactory Societies, by means of threatened withdrawal of Joint Stock Bank overdrafts and of audit fees, and in other ways; but a sound inspection and audit system would probably render extreme action unnecessary, save in very rare cases.

Para. 643.

There is ample scope in the field of Irish rural credit for the operations of both classes of Credit Society—those working under the I.A.O.S. and those which may be organised in connection with our proposed scheme.

SECTION VIII.

AGRICULTURAL LOANS AND GRANTS ADMINISTERED BY STATE DEPARTMENTS.

In the extensive field of agricultural credit one of the most important divisions is that covered by "long term" loans, the security for which may be furnished either by a definitely assigned charge upon the land ("real" or "mortgage" security)—the most usual type; by the personal security of the borrower and his sureties; or in other approved ways. "Short term" rural credit, as we have seen, is based as a rule upon personal security (*i.e.*, upon the general standing and implied assets of the borrower and his sureties), and deals with the needs of agriculture in respect of current expenditure on seeds, manures, &c., the outlay on which will become reproductive in a comparatively short period, usually in from 6 to 12 months. "Long term" rural credit, on the other hand, is concerned mainly with expenditure upon the purchase and improvement of land, drainage, erection of farm buildings, reclamation of waste land, tree-planting, &c.—objects which require a term of years, often a period of considerable length, before a return can be hoped for from which to repay the capital and interest of the loan. Credit of this nature is, therefore, most conveniently dealt with on the "amortisation" principle. *i.e.*, by repayment of capital and interest in instalments spread over the period of the loan.

Long-term loan requirements of farmers.

652. In your evidence furnished at our first sitting you emphasised the importance of our considering very fully the financial position of the new tenant purchasers in respect of the capital and credit required for the improvement and stocking of their holdings, and the question of the necessity or otherwise for devising a scheme of agricultural loans for the assistance of this class, with whose success the future development of agriculture in Ireland is so intimately bound up. Our Terms of Reference also specifically indicated this type of rural credit as one to be inquired into. 33-48

We have therefore during the course of our Inquiry devoted careful consideration to the subject with a view to ascertaining how far the existing systems of long term agricultural loans and free grants administered by various State Departments in Ireland appear to meet the legitimate needs of the rural industry; how far they seem to require alteration or development; and to what extent such State aid might with advantage be supplemented—and as far as possible supplanted—by mutual or co-operative agricultural credit organisations.

653. This Section accordingly deals with the nature and operations of the long term agricultural loan schemes now administered by the State in Ireland, and also with the systems of free grants made from State funds for various agricultural purposes. These we propose to consider in the following order:—

Loans and grants for agricultural purposes made by—

- (a) The Board of Public Works.
- (b) The Congested Districts Board.
- (c) The Estates Commissioners.
- (d) The Department of Agriculture and Technical Instruction.

(a) AGRICULTURAL LOANS ADVANCED BY THE BOARD OF WORKS.

The system of long term loans for various agricultural purposes administered by the Commissioners of Public Works in Ireland under various Acts of Parliament has been in operation for a considerable time. The Board in its present form has been in existence since the year 1831, during which period it has advanced large amounts for diverse objects; but that portion of its functions which is more directly concerned with rural credit commenced with the institution of Land Improvement Loans for landowners in 1847; and was extended to tenants by the Land Law Act of 1881. We were furnished by Mr. Commissioner Hanson with full information in regard to these loans and the principles on which they are now administered. There will be found printed as an Appendix the Rules and Regulations in regard thereto; while the Annual Reports of the Commissioners contain detailed statements as to the number and amount of the loans issued for these purposes*. We may add that of the various loans issued by the Board of Works we have taken cognizance only of those coming under the description "Loans secured on Lands"; advances which have been secured on undertakings or on rates have not, as a rule, any direct bearing upon the subject of our Inquiry.

55-192

Appendices 10
and 11

ARTERIAL DRAINAGE LOANS.

654. We do not propose to refer in any detail to the loans made by the Board for the purpose of arterial drainage under various Acts of Parliament†, although the whole question of the arterial drainage of Ireland—and in particular of certain areas most subject from time to time to serious losses through flooding—has a very direct connection with the financial position of the farmers concerned, and is one which will require to be seriously taken in hand. The main obstacle in the past to the carrying out of this much-needed work has been the large expenditure which would necessarily be incurred if the drainage operations were to be undertaken on a scale sufficiently extensive to achieve permanent benefit. Such expenditure would manifestly be entirely beyond the scope of private enterprise, and could be borne only by the State. Many expert authorities have emphasised the extreme importance to Ireland from the point of view of improvement in climate, and the consequent reaction upon public health, of a proper scheme of arterial drainage. "Above all, in an agricultural country like Ireland," as pointed out by the Arterial Drainage Viceregal Commission in 1907‡, "arterial drainage is a vital necessity, in order that the farmer may be secured against disastrous summer floods whereby his hay and crops are liable to sudden destruction, and against the saturation of his lands for several months in the year, owing to the causes mentioned above, and in order that opportunities may be given for field or thorough drainage throughout large tracts where such is now impossible."

Land Purchase Acts have hindered drainage operations.

655. The serious impediments to the successful working of the existing Drainage Acts, due mainly to the operations of the Land Purchase Acts, have been fully set forth in the Report of the above Commission. The fact that the ownership of the land of Ireland is being transferred from the hands of a comparatively small number of landlords to a very numerous body of tenant purchasers has entirely altered the position of affairs which existed when the Act of 1863 was passed. The change has made the creation of new drainage districts virtually impossible, while leading to indifference on the part of many of the existing Drainage Boards to the efficiency of the works entrusted to their supervision. We have little doubt that in the seven years which have elapsed since the issue of the above Report, the position of affairs in regard to drainage has in no way improved, but has probably, on the contrary, become more serious with the continued progress of land purchase.

In their Report for the year ended March, 1905,§ the Commissioners of Public Works emphasised the fact that Land Purchase legislation in Ireland had brought about new conditions which called for a modification of existing legislative provisions in regard to

* See *Eighty-first Annual Report of the Commissioners of Public Works in Ireland, for the Year ending 31st March, 1913* (Cd. 6971), pp. 30-35, and 66-68, &c.

† E.g., 5 and 6 Vic., c. 89; Drainage and Improvement of Lands Act (Ireland), 1863 (26 and 27 Vic., c. 88); 29 and 30 Vic. c. 49; 43 and 44 Vic., c. 14, etc.

‡ *Report of the Vice-regal Commission on Arterial Drainage* (Ireland), (Cd. 3374), 1907, pp. 10-11. See also Reports of various other Commissions dealing with the subject, especially that of 1885, dealing with the River Barrow and its tributaries, and the Report of the Allport Commission. 1887.

§ C.D. 2657, pp. 12-17.

drainage. It was pointed out that the Drainage Acts can only be set in motion by persons in some command of capital, that in most districts the occupying tenants were not in a financial position to incur such expenditure, and that the transfer of ownership to the occupiers under the Land Purchase Acts would probably not make much alteration in this respect, at any rate in the immediate future. The Commissioners added that there might be expense and difficulty in collecting the drainage maintenance rates from a large number of small occupiers, especially as the latter might not always fully appreciate the necessity of constant maintenance. "This question is one of direct financial concern both to the Government and the ratepayers; for the ability of tenant-purchasers to pay their annuities will be seriously impaired if the works which preserve their land from flooding are not properly maintained."

Another important matter, which has come before us in evidence, was referred to by the Commissioners in the above Report. It was pointed out that in Ireland a large number of drainage works, affecting more than one holding, had been in the past carried out and maintained by individual landlords, and not by Drainage Boards. In some cases the work had been done by means of loans from the Board of Works, while in other instances no State assistance had been obtained. When tenants on such an estate purchased their holdings, there was no authority which could carry out works for the common good or compel the co-operation of those interested; if the latter failed to agree as to their respective shares in the work to be done, it would probably remain undone.

Few Loans now made by Board of Works for Drainage purposes.

656. It appears that from the years 1842 to 1863 loans for the purpose of arterial drainage to the extent of £2,082,052 were advanced by the Board of Works, the greater part of it during and after the famine of 1849. Of this amount, £1,207,582 was remitted, and £874,447 repaid. The amount advanced since 1863, under the Drainage and Improvement of Lands Act (Ireland), 26 and 27 Vic., c. 88, and amending Acts, up to 31st March, 1913, was £855,054. During the year ended March, 1911, no separate advance was specifically made for the purpose of River Drainage, and only £300 for Drainage Maintenance; in the year ended March, 1912, the amount advanced for River Drainage was £276, and for Drainage Maintenance nil; while in the year ended March, 1913, a sum of £412 was lent for River Drainage. In this latter year, under the Land Improvement Acts, two loans, amounting to a total of £220, were approved for works of which thorough drainage or other field work formed the principal part. These figures would go to show that in recent years the advances made by the Commissioners of Public Works to farmers for the purpose of drainage have become practically negligible as compared with the real needs of the country in this respect.

Need for complete revision of Drainage Code.

657. Clearly, as already stated, State action on a considerable scale would be required for the removal of the grave injury inflicted on the country by such periodical floodings on a large scale as that of the Rivers Barrow and Bann. But no satisfactory solution, even of the more limited portions of the problem, can in our opinion be found by any mere extension and improvement of the existing system of advances from the Board of Works, unless considerable amendments are effected in the existing Drainage Acts, in view of the altered conditions created by the Land Purchase Acts.

The importance to the Irish agricultural industry of a well-devised scheme of drainage was emphasised by the Royal Commission on Congestion, in their Report issued in 1908. "Few questions," they say, "were referred to more frequently in the evidence given before us than the desirability of making better provision for the construction and maintenance of drainage works both large and small, and our tours in the West of Ireland confirmed the statements made as to the urgency of this matter. Whether the existing drainage code was well adapted to the circumstances existing at the time it was enacted or not, there can be little doubt that it is unsuitable and inadequate for present needs, and we are convinced of the urgent necessity for devising and putting into force a better system. It seems quite clear that a central drainage department should be established and endowed for the carrying out and maintenance of schemes affecting large areas, and for the exercise of general supervision, both as regards construction and maintenance, over the local drainage bodies which should look after smaller schemes. It also seems desirable that these bodies should be linked on to, or at any rate associated with, the existing local rating authorities. It is difficult to indicate what amendments of the present law are

desirable in order to facilitate the Board in carrying out drainage works, apart from a complete revision of the drainage code as a whole, and we are relieved from dealing with this very important matter in detail, as a Viceregal Commission (Cd. 3374-1907) has within the last couple of years inquired into the question, and their report suggests what seems, in the main, to be a satisfactory solution. We have only to add that no remedy that can be suggested for the problem of the West will be effectual in many districts, until the drainage question is adequately dealt with.”*

Financial position of small farmers seriously affected by lack of drainage.

658. The question of the re-organisation of the present Irish drainage code is, of course, a technical matter lying outside the purview of our Inquiry, except in so far as it has a bearing upon the question of the rural credit facilities afforded to farmers for the purpose by the systems of loans made under various Acts of Parliament. The evidence received by us and the published figures of the Board of Works fully confirm, in our opinion, the above-quoted conclusion of the Royal Commission on Congestion in regard to the unsuitability of the present provision for the carrying out of this most important work. Small farmers, especially, who have not the requisite capital for undertaking drainage improvements on their farms appear to find the present system of loans quite unsuited to their needs.

We are of opinion that, pending the needed reorganisation of the whole machinery for dealing with drainage, small holders whose farms adjoin might, in many cases, through a revision of the conditions of the scheme of loans administered by the Board of Works, be enabled to take united action for the drainage of their holdings, in a way which is not possible under existing legal enactments and Regulations. This question of joint loans will again be referred to in its wider aspect.

Para. 677.

J. O'Donnell,
13307-14.

The financial importance to the farmer of the proper drainage of his land was brought under our notice by several witnesses. For instance, a farmer from County Donegal stated :—

“ If it could be arranged that there would be some source found that would be willing to lend money for a reasonably long period, at a reasonable rate of interest, in order that farmers might drain and put into cultivation land which is lying partly under water, it would be a great advantage to the farmers, and give labour to the people. Half of the profit that would accrue from the drained land—because that is the first step to tillage—would pay back the capital expended in ten years, and leave the land permanently improved.

Q. “ Does not the Board of Works lend for drainage purposes ?—A. I only know one or two receiving any loans from it. Our valuation is not high enough.

Q. “ There are certain limitations in connection with loans from the Board of Works that, perhaps, prevent people from getting them ?—A. We cannot see it open.

Q. “ What is the usual valuation of the farmers in your district ?—A. In the large Union I come from, Glenties, the average valuation would not be £2.

Q. “ Of course a farmer of that low valuation could not get a loan from the Board of Works, because their minimum loan is £35 ?—A. I don't understand their rules in full, but they don't suit us.

Q. “ You know you cannot get money, but you would like to get it ?—A. Yes ; for drainage purposes. Money applied to any other purpose would not pay one-fourth so well as the drainage would.

Q. “ Is there much of the land in your neighbourhood under water ?—A. A great deal, because the people are too poor to drain it properly. Some of them drain it properly—those who have help.

Q. “ Would those who have drained their land properly be able to raise good crops afterwards ?—A. More than double as much as their neighbours.”

LAND LOAN SERVICES.

659. Another class of loans advanced by the Board of Works on the security of land are those which come under the title “ Land Loan Services.” These are loans made to individual owners or occupiers of land for the carrying out of permanent agricultural improvements. The specified purposes for which these loans have been authorised by various Acts of Parliament are the following :—

- (1.) Thorough drainage.
- (2.) Subsoiling and trenching, or otherwise deepening and improving the soil.
- (3.) Irrigation or warping.
- (4.) Embanking from rivers or tidal waters.
- (5.) Formation or improvement of fences, drains, streams, or watercourses.
- (6.) Making farm-roads.
- (7.) Clearing of rocks and stones.

* *Report of Royal Commission on Congestion in Ireland, 1908 (Cd. 4097), paragraph 247.*

- (8.) Reclamation from waste.
- (9.) Planting trees.
- (10.) The erection or improvement of farm offices.
- (11.) The erection or improvement of farm dwelling-houses in connection with farm offices and buildings erected or to be erected.
- (12.) The erection or improvement of labourers' cottages.
- (13.) The erection of mill buildings for the scutching of flax and the formation of watercourses and dam weirs for providing water for same.

LOANS TO OWNERS OF LAND UNDER LANDED PROPERTY IMPROVEMENT ACTS.

660. The principal Act dealing with these advances is the Landed Property Improvement (Ireland) Act, 1847* which authorised loans for the purpose of carrying out field works, *i.e.*, for the purposes (1) to (8) of the above list. Subsequent Acts widened the scope of these loans by allowing the Board to lend for objects (9) to (13). The persons who are qualified to borrow under these Acts must be *owners* (as distinct from *occupiers*) of land; they include the following classes:—"Owners in fee, purchasers under the Land Purchase Acts, leaseholders of interests for lives renewable for ever, holders of fee-farm grants and holders under leases of which more than 40 years are unexpired at date of application." The above are enabled to borrow without collateral security. In addition, by furnishing collateral security, holders of leases for two or more lives in being, or for a term of more than 25 years and less than 40 years unexpired on date of application, are qualified to borrow. Tenants under the usual agricultural tenancy from year to year are not, therefore, in a position to make use of these loans; but tenant-purchasers, *i.e.*, those who have purchased the fee-simple of their holdings under the Land Purchase Acts, are included.

A loan under Land Improvement Acts must be at least £100, save for farm buildings.

661. In the Appendices to our Report will be found a copy of the Rules† which govern these loans; the main provisions are as follows. No loan can be made under the Landed Property Improvement Acts for a less sum than £100, save in the case of farm buildings, when £50 may be granted. Nor may the total amount of the loan exceed seven times the Poor Law Valuation of the property concerned. In the case of tenant-purchasers, the Board do not, as a rule, make loans exceeding five times the annual value of the holding, seeing that the land is already burdened with the annuity to the Land Commission. The general period for repayment is 22 years, by a yearly rent-charge of 6½ per cent., in two half-yearly instalments covering interest and sinking fund. The rate of interest upon these loans is, therefore £3 8s. 3d. per cent per annum. In certain cases where the loan is required for the purpose of buildings, clearing land of rocks, and planting, the term of repayment may, on the borrower's application, be extended to 35 years, the annuity, including interest, being at the rate of 5 per cent. Whether the loan is sanctioned or refused, the applicant is required to pay any expenses incurred by the Board in connection with the application, but the exact amount of such expenses cannot be determined beforehand.

LOANS TO TENANT-OCCUPIERS UNDER LAND LAW ACT, 1881.

662. The Land Law Act of 1881 (44 and 45 Vic., c. 49) extended the above system of land improvement loans to tenants, who under that Act obtained an interest in their holdings which could furnish security for a loan. Since 1881, therefore, "two systems of loans for the same objects have existed side by side, the nature of the security and the procedure being in certain respects different according as the loan is made to an owner of land or to a tenant-occupier. Since the Land Purchase Acts have come into operation many owners of land, who are also occupiers, *viz.*, tenant-purchasers under those Acts, have obtained loans. In some cases the loans are made to them in their capacity as owners, and in other cases in their capacity as occupiers, according as the statutory requirements happen to suit a particular case."<‡

* 10 and 11 Vic. c. 32.

† See Appendix 11 to Minutes of Evidence.

‡ See Mr. Commissioner Hanson's Memorandum, Appendix 10 to Minutes of Evidence. We understand that the permission given, under Section 31 of the Land Act of 1881, to the Board of Works to issue loans to Public Companies for the purposes of agricultural improvement has not been taken advantage of, few applications having been made and only one loan actually issued in the period of 32 years which has since elapsed.

A loan under 1881 Act must be at least £35.

663. The Rules which regulate the granting of loans to occupiers of land under the Act of 1881 will also be found included in the Appendices to our Report.* Their chief provisions are the following. No loan will be granted for a less sum than £35, nor for a greater amount than £1,000. Under ordinary conditions a loan will not be granted for a greater sum than three times the annual value of the holding, such value to be determined by the judicial rent, where such has been fixed, and, if not, by the Poor Law Valuation. The period for repayment, as in the case of loans to owners under the Land Improvement Acts, is 22 years, with an annuity of $6\frac{1}{2}$ per cent., payable in two half-yearly instalments, equivalent to interest at the rate of £3 8s. 3d., per cent. A borrower may, with the approval of the Board, accelerate the repayment of the loan. All applicants must forward to the Board with their memorials the sum of 10s., to cover expenses, in the event of the loan not being proceeded with.

Special Charges for Expenses in addition to Interest.

664. In addition to the interest, these loans are subject to charges to meet the expenses incurred by the Board. From the Table published in the Rules,† it will be seen that these charges vary from £2 on a loan of £35-£40, to £5 on a loan of £100, £7 10s. on £185-£200, £10 on £285-£300, &c. These charges naturally add considerably to the cost of the loan to the borrower; they are deducted from the first instalment advanced (loans being issued in instalments of not more than one-fifth of the amount sanctioned). A farmer obtaining a loan of £100 would thus when the first instalment becomes due to be paid to him receive only £15 instead of £20. As against this must be placed the fact that the long term of 22 years is allowed for repayment by annual instalments, and that the charge is intended to cover expenses during that period. We understand that this scale of charges has been adopted in substitution for a previous arrangement under which the tenant-borrower was charged the actual expenses incurred for preliminary inspection, &c. In the case of land-owners under the Land Improvement Acts, the actual expenses incurred by the Board in connection with the loan are charged; these expenses sometimes exceed and sometimes are under those set out in the above-mentioned scale.

Para. 661.

P. Hanson,
100-14.

It appears that in the year 1910-11 the estimated cost of administering the Land Improvement and Land Law Loans was about £13,500, the loans issued in that year amounting to £54,511 under the Land Improvement Acts, and £36,267 under the Land Law Act. Thus the estimated expense of the administration of loans amounting to £90,778 was £13,500, or over one-seventh of the total lent. Although this expense appears very considerable, it must be remembered that it includes not only a proportion of the cost of administration of the Office of the Commissioners of Works and of the staff of Inspectors employed in connection with land loans, but also the cost of recovering and receiving payments of loans advanced, and of proving titles to land. This last-named proceeding, we may add, is often necessarily a tedious one, and leads to frequent delays in making advances to applicants. It furnishes a further illustration of the extreme desirability of an early completion of the process of land registration in Ireland, accompanied by the discharge of equities, so as to facilitate the obtaining of accurate information as to the true title of a would-be borrower on real security.

See paras.
788-793.*Charge upon Land required as Security for Loans by Board of Works.*

665. The Board of Works require as principal security for the above loans advanced by them a charge in the nature of a mortgage upon the borrower's interest in the land upon which the improvement is to be effected, the charging order being made by the Board and registered in the Office of the Registry of Deeds. Where the borrower is owner of the land his charge attaches to the land itself, even if the particular interest of the borrower comes to an end; but in the case of tenants the charge is only upon the tenant's interest, an interest which may be terminated by eviction. In such a case, therefore, the Board's charge is lost, for although the borrower remains personally liable, nothing can, as a rule, be recovered from him.

Para. 803.

We refer elsewhere to the fact that the Board continue to register in the Registry of Deeds charges upon *registered* land, although charges upon such land in Ireland are, with

* Appendix 11 to Minutes of Evidence.

† See Rule VII., Appendix 11 to Minutes of Evidence, p. 528.

this exception, recorded in the Land Registry, not in the Registry of Deeds. This method of registration has rendered our Tables of Mortgages less complete than they otherwise would have been, for it has entailed the inclusion of records of many transactions upon registered land amongst the totals for unregistered land. We would strongly recommend that any legal difficulties affecting the matter may be removed—should such exist—so as to assist in terminating this imperfection in the records of registration of title in Ireland.

Satisfactory repayment of loans.

666. The repayment of the advances made by the Board of Works under these Loan schemes furnishes further proof of the generally satisfactory manner in which Irish farmers fulfil their financial obligations. Up to the year 1910–11 more than £6,000,000 had been advanced under the above Acts, of which nearly £5,000,000 had been repaid, about £30,000 having had to be written off as irrecoverable. Included in these figures are large sums borrowed by landlords for the purpose of relief works in the years of the famine. Mr. Hanson stated :—“ The repayment of the loans is, on the whole, satisfactory. Only £29,546 has been written off as irrecoverable, as against £4,972,202 repaid ; that is a little over a-half per cent. But many of the borrowers are not very punctual in their payments. In the year 1910–11 the repayments of principal and payments of interest came altogether to £135,805, and at the end of the year there was £28,002 in arrear. In the course of that year the Board took civil bill proceedings against about 620 borrowers to recover instalments, some 400 of these being sued twice in the year. If we compare this figure of 620 with the number of open loan accounts for land loans, 20,437, it appears that on an average 1 in 33 of the debtors has to be sued each year.”*

Return showing Land Loans made in certain years.

667. From the Report of the Commissioners of Public Works for the year ended 31st March, 1913, we have taken the following figures, showing the advances made in certain years under the Land Improvement Acts and the Land Law Act :—

Year.	Land Improvement Acts.		Land Law Act.	
	No. of Applications	Amounts issued.	No. of Applications	Amounts issued.
		£		£
1850	436	250,324	—	—
1855	98	35,180	—	—
1860	135	26,902	—	—
1865	90	46,215	—	—
1869–70	166	83,775	—	—
1874–75	245	102,005	—	—
1879–80	2,607	224,810†	—	—
1884–85	395	122,519‡	2,758	211,503
1889–90	189	25,677‡	850	38,428
1894–95	342	33,080	776	36,360
1899–1900	294	38,900	625	38,984
1904–05	569	42,408	919	53,267
1909–10	799	47,060	810	30,244
1910–11	912	54,511	1,052	36,267
1911–12	895	58,478	923	45,255
1912–13	1,114	66,399	1,056	41,473

* See Appendix 10 to Minutes of Evidence.

† Including Relief of Distress Loans.

‡ Including Loans under 19th Section of the *Land Law (Ireland) Act*, 1881.

The largeness of the advances for the years 1879-80 and 1884-5 is partly accounted for by the fact that they include Relief of Distress loans. Since 1890 there has been an increase, though not a continuous one, in the number of applications received and in the amount annually advanced under the Land Improvement Acts. Of the 1,114 applications received in the year 1912-13, 1,006, or over 90 per cent. were from purchasers under the Land Purchase Acts ; while of the 796 loans actually sanctioned under the Land Improvement Acts, 596, or almost 75 per cent. were for Hay Barns or similar iron structures.

The great majority of the loans to tenants for improvements were made under the Land Law Act. It will be seen that during the year 1912-13, 1,056 applications for these loans were received (an increase of 133 on the previous year) ; the amount issued was £41,473, a decrease of £3,782 on the previous year. The number of these loans sanctioned in the year was 786, while since the passing of the Act in 1881, 22,858 loans have been approved, amounting to £1,761,832. During the year 1912-13, applications were received from 339 occupying owners who were disqualified by some feature in their application from obtaining advances under the Land Improvement Acts.

Only three per cent. of total amount is expended for other purposes than farm buildings and cottages.

668. The following Table shows the specific objects for which farmers availed themselves of these loans. The figures refer to work under loans completed during the year ended 31st March, 1913 :—

				Land Improvement Acts.	Land Law Act.
				£	£
Field Works	1,940	945
Farm Buildings	62,341	40,785
Labourers' Cottages	2,067	1,085
Scrutch Mills	—	—
Planting for shelter	—	—
Total				£66,348	£42,815
				Total £109,163.	

Thus out of a total expenditure of £109,163, a sum of £106,278, or over 97 per cent., was utilised in connection with farm buildings and cottages. We understand that loans in earlier years were used largely for the reclaiming of land ; but it is apparent that, for one reason or another, in recent years advances for this purpose are comparatively seldom obtained, while those for farm buildings have much increased. Loans for the erection of iron hay barns account for the bulk of this expenditure ; in the year 1910-11, for instance, out of £100,000 advanced for farm buildings, £65,000 was represented by hay barn loans.

Only two Land Improvement Loans, amounting to £220, were approved for the whole of Ireland during the year 1912-13 for works of which thorough drainage or other field work formed the greater part.

EXTENT TO WHICH THE VARIOUS COUNTIES AVAIL OF THE LAND LOANS.

669. The differing extents to which the various counties of Ireland make use of these land loans may be seen from the following figures, extracted from Tables published in the Annual Report of the Board for 1912-13. It will be seen that the counties making use of the largest number of loans were Tipperary, Limerick, Cork, Kilkenny, Clare and Wexford.

		Land Improvement Loans		Land Law Loans.	
		Number of Loans issued in year ending 31st March, 1913	Amounts issued.	Number of Loans sanctioned in year ending 31st March, 1913	Amounts issued.
			£		£
LEINSTER.					
Carlow	14	1,167	30	2,395
Dublin	8	1,430	12	1,554
Kildare	31	4,218	4	796
Kilkenny	68	5,116	45	1,656
King's County	10	1,030	9	719
Longford	9	1,022	10	426
Louth	10	734	10	612
Meath	32	4,355	20	2,145
Queen's County	19	1,141	20	1,688
Westmeath	9	1,022	17	1,701
Wexford	51	4,396	24	2,299
Wicklow	41	3,800	19	964
Totals	302	29,431	220	16,955
MUNSTER.					
Clare	28	1,685	67	2,663
Cork	91	6,485	59	2,494
Kerry	25	2,148	16	371
Limerick	107	6,930	176	7,808
Tipperary	124	9,199	163	6,801
Waterford	33	3,166	12	580
Totals	408	29,613	493	20,717
ULSTER.					
Antrim	5	530	—	—
Armagh	4	173	4	115
Cavan	2	86	7	288
Donegal	1	40	1	550
Down	8	585	7	106
Fermanagh	12	2,310	10	508
Londonderry	5	155	1	110
Monaghan	1	—	1	75
Tyrone	7	258	2	270
Totals	45	4,137	33	2,022
CONNAUGHT.					
Galway	19	1,258	12	440
Leitrim	1	120	6	137
Mayo	5	338	5	615
Roscommon	11	963	9	345
Sligo	5	539	8	242
Totals	41	3,218	40	1,779
Totals for Ireland,		796	£66,399	786	£41,473

Combined Totals, { No. of loans, 1,582.
Amount, £107,872.

EXTENT TO WHICH THE PROVINCES AVAIL OF THE LAND LOANS.

670. Combining these totals, we find that the various Provinces utilised this land loan system to the following extent in the year ending 31st March, 1913 :—

		Number of Loans.	Amounts issued.
			£
Leinster	...	522 (=33 per cent.)	46,386 (=43 per cent.)
Munster	...	901 (=57 per cent.)	50,330 (=47 per cent.)
Ulster	...	78 (= 5 per cent.)	6,159 (= 5 per cent.)
Connaught	...	81 (= 5 per cent.)	4,997 (= 5 per cent.)
		1,582	£107,872

118-119

The extremely small extent to which the Provinces of Ulster and Connaught make use of this loan system is rather striking. These two Provinces together utilize only one-tenth of the total loans for Ireland. Mr. Hanson stated : “ The whole North of Ireland is worked by three men, whereas there are three Inspectors in the County Tipperary alone. People borrow in the South and they do not borrow in the North. . . . They may be frugal, or they may have equipped their farms with the sort of buildings which people in the South are borrowing money to erect. They may want fewer hay barns, for which the loans are largely required in the South.”

Tenant-purchasers of under £7 Valuation and tenants under £12 Valuation ineligible for loans.

Paras.661-3

671. From the Rules which we have already quoted it will be seen that no loan for a less sum than £100 can be granted under the *Land Improvement Acts* (save in the case of advances for farm buildings, when £50 may be granted) ; nor under the *Land Law Act* for a less sum than £35. The maximum loan given in ordinary cases under the latter Act is three times the annual value of the holding to be charged. Thus if a holding be valued at, say, £12, the maximum loan would be £36 ; but the minimum loan allowed under the Rules being £35. £12 is accordingly the minimum valuation on which a loan can be advanced. Under the *Land Improvement Acts*, on the other hand, the maximum loan which can be made amounts to seven times the valuation, save in the case of tenant-purchasers, when the Board do not as a rule make loans exceeding five times the annual value of the holding. It is clear that under these Regulations a tenant-purchaser of a holding of less than £7 Poor Law Valuation is outside the scope of the system, while a tenant whose judicial rent or Poor Law Valuation is under £12 is similarly unable to obtain aid. The greater security afforded by a purchased holding is the ground of this distinction between the two classes of farmer.

Your Committee understand that the minimum of £35 is a matter of Treasury Rule, that the figure originally fixed was £50, and that the Treasury have not seen their way further to reduce the minimum below £35. Seeing that these loans are not repayable for the term of 22 years, there is admittedly much to be said for the retention of the minimum at £35 ; for small loans are proportionately much more troublesome and expensive than large loans in respect of administration and collection. But nevertheless we regret that under the existing system so many of the smaller holders who would be glad to obtain loans for drainage and reclamation purposes should be precluded from doing so by the restrictions of the Regulations, and by the fact that the joint and several security of several small farmers is not accepted as guarantee for a loan. The erection of a suitable cow-shed or byre, conforming to the conditions of the Dairy and Cow-sheds Order, is one of many purposes for which loans of £10 or £15 would often be very useful to farmers.

Evidence as to unsuitability of loan system for small farmers.

672. The two following are typical extracts from the evidence upon this aspect of the subject. Mr. Henry Doran, member of the Congested Districts Board, in speaking of these loans, said :—

“ These loans are secured by Deed of Charge on the holdings. Repayment of the loans is made in half-yearly instalments of uniform amount spread over a period of 22 years at 6½ per cent., or 35 years at 5 per cent., including repayment of capital and interest. As a rule, the loans mentioned are only given for the shorter period, 22 years at 6½ per cent., and small farmers find them expensive. They find it rather difficult to meet in the short period the 6½ per cent., and they also complain of what they regard as an excessive expense attending the obtaining of small loans from the Board of Works. It is the practice of the Board of Works to charge in connection with these loans the expense incurred in connection with the application whether the money is granted or refused—the cost of sending an Inspector to the place.

Q. “ So that is a deterrent ?—A. Yes ; in the case of small loans. However, in my opinion, these loans meet the requirements to a reasonable extent at any rate of landholders whose farms exceed £10 Poor Law Valuation. That is, the larger landholders.”

The Secretary of the County Carlow Committee of Agriculture stated in his evidence :—

“ On small farms a good deal of reclamation could be done if the farmer could get money at a reasonable interest, and with facilities for paying it back in eight or ten years. These people cannot borrow from the Board of Works. The expenses of inspection, and the difficulties of getting a small loan, are altogether out of their reach. P. J. Griffin, 18104-6

Q. “ Is it not possible for them to borrow from the Board of Works ?—A. Not in the case of a loan of £10 or £15.

Q. “ The Board would not lend so small a sum as that ?—A. That is so. That class of farmer does not want such a sum as would cover the whole expense of reclamation. He wants a sum that would provide the material alone. He would be able to give his own labour.”

Similar evidence to that received by us in regard to the desirability of a smaller minimum for the Board of Works' loans was, we observe, furnished ten years ago in connection with an Inquiry into the condition of Irish tenant-purchasers. In this Report our colleague, Mr. Bailey, stated :—“ We were frequently told by small purchasers—men whose annuities did not exceed £10 a year—that it would be a great boon to them if they could borrow on fair terms small sums of £5, £10, or up to £20 with which to make improvements that would add much to the productive capacity of their farms. These people do not wish to incur liabilities greater than they see their way to meet. They often told us that a Board of Works loan for the improvement of land or houses is beyond their means, as the annuity would swamp them, or the amount they would have to borrow would be too large for a farm of the size which they occupy.”*

The Royal Commission on Congestion in Ireland stated in their Report in 1908 that “ loans can be procured from the Board of Works for various purposes, though the Regulations are not, perhaps, sufficiently elastic to meet the requirements of the West.”†

Very Limited Extent to which Land Loans are now availed of.

673. It is clear from the evidence received by us that if the erection of hay barns and similar buildings—a process which must in course of time diminish—be excluded, the extent to which the Irish farmers make use of the Land Loans is exceedingly small, when contrasted with the undoubted needs of agriculture. We cannot but regard this circumstance as extremely disappointing ; it would tend to show that the conditions attached are not sufficiently adapted to the credit needs of the country, or else that there is a widespread lack of knowledge amongst Irish farmers in regard to the system. The evidence leads us to believe that the former is the more operative cause.

Mr. R. M. D. Sanders, County Cork, in speaking of the loan system of the Board of Works, said :—

“ That is not quite so elastic as I should like to see, and the tenant does not care to go through all the formalities necessary to procure a Board of Works loan. The loans under the Board of Works encourage them rather to put up more expensive buildings than they require. A cheaper form of buildings will sometimes answer their purpose, and they will put it up more cheaply than the Board of Works.” 4180

A farmer from County Donegal (a county which makes practically no use of these loans) urged the desirability of the system being made available for smaller farmers. P. M. Bride, 14012-17

“ If a man's valuation is £12, he has no difficulty in getting a loan for building or drainage purposes, and he gets 22 years to pay it back.

*House of Commons Return, 92 (1903), pp. 24, 25.

†Cd. 4097, para. 258.

Q. At 6½ per cent. I think it is ?—A. Yes ; something about 6½ per cent. In that case it would work out splendidly for an industrious man. His poorer neighbour of £2 or £3 less valuation, and equally solvent and industrious, is barred from getting a loan from the Board.

Q. Do you know the reason of that ?—A. I suppose they thought the larger farmer was the better security.

Q. They have a rule that their minimum loan is £35 ?—A. Yes.

Q. The alteration of that rule, you think, would be of service ?—A. Yes ; I know very industrious, improving thriving, small farmers, and if they got a little help to carry them on, they would do better. I know that if the small industrious farmers got loans, they would build decent sanitary dwelling-houses in a few years ; because where there are thriving and industrious farmers they can do a lot of the unskilled labour themselves, and provide the rough material, such as stones, sand, and lime. If they got a loan of forty or fifty pounds, repayable in 20 or 25 years at this rate of interest, they would never feel paying it off ; and with that small loan they could erect a decent dwelling-house that a contractor would not build for £150 ; because all they would want is a little money to buy the material and skilled labour. A loan of that kind would be an immense improvement ; because the loss in the thatching and upkeep of the present hovels would be as much as the instalments on the loan."

LOANS FOR THE ERECTION OF HAY BARNS.

674. We do not know what ground, if any, there may be for the complaint made by some witnesses that the regulations attached to the loans of the Board of Works in regard to buildings require a more expensive erection than is suitable for the needs of the average farmer. We have no doubt that the specifications have been carefully considered before being decided upon, while the comparatively large extent to which advances are obtained for this particular object would point to the structures being on the whole suitable to the needs of the borrowers. They are probably more substantial and permanent, and therefore in the end less costly than barns erected by the farmers themselves at a smaller initial expense.

Loan Scheme of Department of Agriculture for Hay Barns costing less than £35.

675. By a recent arrangement between the Board of Works and the Department of Agriculture a scheme has been drawn up by means of which small occupiers who require hay barns costing less than £35 may obtain an advance for the purpose from the Department. The Department's regulations* state :—" These loans are not intended for occupiers who can afford, or may reasonably be expected to pay, cash for the required barn, nor for cases in which, having regard to the position of the occupier, and the cost of the proposed barn, application for a loan should be made to the Board of Public Works." The Department must be satisfied that the applicant is a person of small means, and, save in exceptional circumstances, no application will be considered from any one whose gross Poor Law Valuation exceeds £20. A loan is granted only for an amount of less than £35 ; a farmer requiring a loan of £35 or over must apply to the Board of Works. The applicant and two or more solvent sureties are required to furnish a guarantee to the Department for the repayment of the loan in ten equal half-yearly instalments with interest at the rate of 3 per cent.

When this scheme of loans becomes more widely known, it will probably be extensively availed of by small farmers who do not require expensive hay barns.

Anomaly of two hay-barn loan schemes, with different conditions, administered by two State Departments.

676. It is obvious, however, that for reasons of economical and convenient administration alone, a loan scheme of this sort for a specific agricultural purpose should preferably be administered by a single authority, whether the Board of Works or the Department. In this, as in the case of other loan schemes already referred to, we regret that it should not have been found possible to reduce the minimum Board of Works' loan below £35, so as to embrace the smallest class of tenant or tenant-purchaser. Probably the best possible provisional course was taken in arranging for the Department of Agriculture to undertake the carrying out of a scheme of smaller loans, in spite of the anomalies which necessarily arise.

Under this arrangement a farmer requiring a barn costing £35, or over, must apply to the Board of Public Works, who in case the loan is approved will deduct a sum for expenses, and will advance the money for a period of 22 years, repayable half-yearly with interest, not including sinking fund, at a rate of £3 8s. 3d. per cent. A charge upon his holding will be required as security.

* Printed in full in Appendix 12 to Minutes of Evidence.

A neighbouring farmer, on the other hand, requiring a smaller barn costing, say, £30, must apply to the Department of Agriculture, who will, in approved cases, on the personal security of the borrower and two or more approved sureties, and without any charge on the holding, pay the contractor (no charge is made to the borrower, we understand, for expenses), the loan being repayable in 5 years in half-yearly instalments, with interest at the rate of 3 per cent.

Desirability of Loans to several small Farmers jointly.

677. Representations were made to your Committee in favour of the Board of Works' loans being, if possible, made available for several small farmers in possession of adjoining holdings, thus enabling them to combine for the purpose of obtaining advances to be used jointly in the improvement of their land, as for drainage, reclamation, &c. In numerous cases where the individual holdings are of too small a valuation or rent to come within the regulations of the Board of Works, much could, we believe, be accomplished if the joint security of several small holdings were to be accepted. At present the Rules require that the money advanced must be expended only upon the particular farm which is given as security for the advance, but we cannot see any insuperable obstacle to the carrying out of our proposal.

Again, in those cases where the making of farm roads, leading, say, from the public road to a group of small farms, would be advantageous, it seems very desirable that these farmers should, by means of their joint security, be in a position to obtain an advance for the purpose; but under the existing regulations it appears that the Board could not accept this joint and several security, but would have to lend the money separately to each farmer for the portion of the road lying within his own farm, a rather complicated method. The functions of the Local Authorities would, of course, have to be considered in many cases.

Mr. Commissioner Hanson informed us that the present situation was unsatisfactory :—

Q. "Do you not think if you had legislation that would enable you to do it, that it would be a great benefit to some small people whose lands are running along the river if a small combination—not necessarily a drainage Board—could obtain a loan through the Board of Works to make an embankment?—A. Yes; we think there is a hiatus in the present Acts. If three or four holdings are flooded by a river there is a great difficulty in making advances, Legislation was foreshadowed by the Irish Government."

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If it had been possible to lend to groups of small holders, instead of to individuals, and if the personal security of the borrowers and of approved sureties could be accepted in suitable cases, in lieu of a charge on the land, the Land Loan schemes would, we are convinced, have been much more widely utilised. We fully recognise the difficulties attached to the question of adequate security, but it would not seem to be beyond the range of possibility to devise a plan under which the allocation of the charge would be made amongst a group of small farmers in proportion to the benefit received by each from the expenditure.

Para. 658

RELUCTANCE OF NEW TENANT-PURCHASERS TO OVERBURDEN THEIR HOLDINGS.

678. Our Inquiry has led us to believe that a natural reluctance to incur obligations which it may not be easy to meet probably accounts to some degree for Irish farmers not obtaining loans on a more extensive scale from the Board of Works. This aspect of the matter was, we observe, referred to some years ago in the Report of an Inquiry into the condition of Tenant-Purchasers, already quoted from :—

"A small purchaser in Roscommon when asked why he had not obtained a loan from the Board of Works to improve his buildings, replied, 'If I borrowed as you say, the land would not produce enough to pay the instalments, and I would be swamped.' Frequently we were told by farmers who were desirous of getting some money on loan to make improvements that they would not like to borrow more than they were sure of being able to repay, and the impossibility of doing this was often given as an objection to the Board of Works' system of land improvement loans, which has for them a too high minimum advance.

"There is also an evident disposition among purchasers who get loans for land improvement purposes from the Board of Works to borrow only in aid of their own resources. Thus a man will say, 'I want £100 to make an improvement. I will find £50 myself and borrow the other £50.'

"On an estate in Kilkenny we found that the Tenant-purchasers are averse to borrowing money for any purpose. They consequently limit their expenditure on improvements to what they can supply themselves. They are afraid to run risks that they do not clearly see their way to meet.

On an estate in Westmeath, when our Inspector explained to the purchasers the Board of Works' system of loans for improvement work, and the rate of repayment, they all said that they could not afford it, as it would be like a new rent to them. On an estate in Longford where an extraordinary improvement has taken place in the condition of the purchasers, . . . they seem to have an abhorrence of borrowing at all—even from the Board of Works."*

* House of Commons Return, 92, 1903, pp. 10–11.

See also
para. 833

This unwillingness on the part of many of the new peasant-proprietors to burden their recently-acquired holdings with debt, save with the reasonable certainty of being able to repay the instalments of the loans as they fall due, is one deserving of nothing but praise, and furnishes additional proof that a well-organised system of long-term agricultural credit could, with every prospect of safety, be placed at the disposal of farmers of this class.

Cost of Agricultural Labour.

Paras.
503-503D

679. The increased expense of agricultural labour is a factor which tells heavily against the medium and larger class of farmer undertaking costly, and sometimes doubtful, expenditure on the drainage and reclamation of land, especially if a portion of all of the cost has to be borrowed. We refer elsewhere to the question of the Irish agricultural labourer and his financial position ; we merely wish to point out here that the failure of the farmers to avail themselves more widely of the land loans of the Board of Works is not to be solely, nor perhaps even mainly, accounted for by the conditions attached to such loans. The question is one which must be viewed from many aspects, if correct conclusions are to be arrived at.

Negligible extent of Loans for Tree Planting.

680. Amongst the objects for which loans may be made by the Board of Works is the planting of trees. Since the passing of the *Landed Property Improvement Act* of 1866 (29 and 30 Vic. c., 40.), under which these advances are made, 155 loans, amounting to £37,105, have been made, an average of only three loans per annum. Of these, over 40 were Relief of Distress loans. No loan for this purpose exclusively was made during the two years ended 31st March, 1913. The following are the figures giving the loans sanctioned for tree-planting under the above Act during recent years :—

Year.				Number.	Amount.
					£
1905	2	400
1906	1	250
1907	2	200
1908	—	—
1909	2	740
1910	2	635
1911	5	2,130
1912	—	—
1913	—	—

The above figures show that the extent to which these loans are availed of is insignificant, more particularly when the admitted requirements of Ireland in respect to tree-planting are taken into consideration.

Recommendations of Departmental Committee on Forestry in regard to Tree-planting Loans.

681. The extreme importance of encouraging, by means of loans and otherwise, the occupiers of holdings in Ireland to preserve existing woods and to undertake the planting of portion of their land with trees was exhaustively dealt with in the Report of the Departmental Committee on Irish Forestry,* issued in 1908, which recommended that advances under the Land Acts should be made to the County Councils, as trustees, to enable them to acquire the smaller woods and plantable land in connection with such woods, and that they should be aided by the Forestry Authority and the Board of Works ; that increased encouragement should be given to private owners to plant portions of their holdings ; that in the case of the smaller holders, such encouragement should take the form of an extension of the County Horticultural Schemes, and, in the case of the larger holders, of an extension of the system of Board of Works' loans.

* Cd. 4027-1908, p. 59.

Mr. Commissioner Stevenson in giving evidence on behalf of the Board of Works before the Forestry Committee* said that from 1866 to March, 1907, 146 loans for tree planting, amounting to £33,600, had been sanctioned, of which 41, amounting to over £19,000, were Relief of Distress loans. He added that it was possible that other sums of which no separate accounts had been kept had been expended on planting, being included under the general heading of "drainage, fencing, land works," &c., but that such loans would probably be small. In addition, six loans, amounting to £805, had been made to occupiers for the exclusive purpose of planting. Out of 19,000 loans to occupiers under the *Land Law Act* of 1881, only 137 had included amongst the specified objects that of planting.

In advocating the extension of the existing County Horticultural Schemes the Report pointed out that a "system of loans through the Board of Works for planting purposes has been available for occupiers of this class under the *Land Law (Ireland) Act*, 1881, as amended by the *Tramways and Public Companies Act*, 1883. But the fact that in the twenty-four years during which this provision has been in operation, only six loans for the exclusive purpose of planting have been granted, involving a total sum of £805, seems to indicate the unsuitability of the system for such occupiers, and to confirm the view that the system of the county schemes is the best in this case."†

Special nature of loans required for development of forestry operations.

682. The Forestry Committee, in dealing with the loan schemes of the Board of Works in relation to large advances, pointed out that for the farmer holding 200 acres and upwards and the larger landed proprietor, the inducement must be of a nature that would relieve him to some extent from the immediate lock-up of capital incurred in planting operations, while at the same time providing a guarantee that the outlay would prove a sound investment. Easy loans, with deferred interest, absolute security of tenure, and free advice in all branches of forestry, were the chief essentials.

"The burden should be taken off the earlier years and placed upon the years when revenue began to be earned. We would apply the same principle here as we recommend in the case of County Councils needing advances for capital expenditure. In our opinion the importance of this matter is so great that we would defer the repayment of instalments of principal, charging only interest for, say, the first twenty-five years, and from the twenty-fifth year begin a scale of repayment extending the loan over a period in all of, say, fifty years, the loan to be secured as at present. We would, further, have the owner provided with expert advice practically free, charging him only the travelling expenses of the forestry expert from a given centre. Expert management should be regarded as a cardinal feature of the system."‡

Proposed transfer of Forestry Loans to Department of Agriculture.

683. These suggested changes seem to us eminently desirable. We are not, however, in a position to deal with the more technical aspects of the question of forestry loans,‡ which only comes within the scope of our inquiry in so far as it has a direct bearing upon the subject of agricultural credit in Ireland.

The evidence furnished to us, and the figures in the Annual Reports of the Commissioners of Public Works, strongly confirm the view that the existing system of loans for planting purposes, whether for small or large holders, is in many respects unsuitable and is almost a negligible factor in aiding the development of tree-planting by Irish farmers. We fully agree, therefore, with the view of the Committee of Inquiry of 1907 into the work of the Department of Agriculture that "it is a question well worthy of consideration whether the administration of loans for planting should not be vested in the Department of Agriculture instead of in the Board of Works as at present. Future planting by private owners will probably be undertaken under the advice either of the Department's Chief Forestry Expert or of the Agricultural or Horticultural Instructor, and it appears to be desirable that the authority under whose auspices planting will be undertaken, and which is, through its instructors, placed now in almost every county, in a position to supervise the operations of planting and the future care and management of the woods, should also be the authority responsible for the issue of the loans."§

*See Minutes of Evidence, *Report of Departmental Committee on Irish Forestry*, pp. 45-49.

†*Report of Departmental Committee on Irish Forestry* (Cd. 4027-1908), pp. 36, 37.

‡Particulars of the action taken by the Department of Agriculture, both directly and in co-operation with several County Committees of Agriculture, for the improvement and extension of forestry in Ireland, will be found on pp. 92-5 of the Department's 13th Annual Report. (Cd. 7298-1911).

§Cd. 3572-1907, p. 75.

*No Loans for the erection of Scutch Mills advanced by Board since 1894.*15 & 16
Vic., c. 3410 & 11
Vic., c. 3213 & 14
Vic., c. 31P. Hanson,
62-65.

684. Under an Act of the year 1852 authority was given to advance, out of any money authorised to be expended upon the improvement of landed property in Ireland, under the *Landed Property Improvement (Ireland) Act* of 1847, or the *Public Money Drainage Act* of 1850, loans "for the erection of buildings suitable to scutch mills for flax in Ireland, and for the formation of watercourses and weirs necessary for providing water power for the same." The total amount advanced by the Commissioners of Public Works for this particular purpose has been comparatively small, *i.e.*, a sum of £4,754 in a period of 60 years. Of this sum £4,055 was lent to landowners previous to the year 1873, while £699 was advanced to tenants before the year 1894. Since the year 1894 no money has been advanced for the purpose, either to landowners or tenants.

Under the Act of 1852 it was provided that loans should not be made "for the erection or supplying of any water-wheel or any machinery for any such scutch mill for flax." The regulations of the Board accordingly point out "that the cost of providing the requisite machinery and initial fitments cannot be included in the loan, but must be provided out of the private funds of the applicant." This legal restriction must inevitably have had an influence in discouraging applications for these loans. Whatever the cause, the outstanding fact remains that in the last 40 years a sum of only £699 has been advanced by the Board of Works for the purpose, while no loan has been made for the past 20 years.

We observe that the Departmental Committee on the Irish Flax-growing Industry, which reported in 1911, after specifying various ways in which the improvement of the flax industry throughout the country might be encouraged, recommended that "special efforts should be made to promote the revival of the industry in districts where it is now almost extinct. In such cases we think the Department could legitimately render assistance of a direct character, such as by affording help in the erection of new or the renovation of old scutch mills, when by so doing they would not injure private enterprise or the interests of the proprietors of old-established and satisfactory scutch mills. Considering the extent and importance of the industry, the gross value of which is about £500,000 sterling per annum, the Department would be justified in setting aside for the above purposes a much larger sum than they have hitherto done."*

Scutch Mill Loan Scheme of Department of Agriculture.

Para. 676

685. The Department of Agriculture have issued for the repair and equipment of Scutch Mills, 5 loans, amounting to £740, up to March, 1913. Under this Scheme the borrower and at least two sureties furnish personal security to the Department for the loan. A mortgage may be asked for, but so far this has not been found necessary. These loans, unlike those of the Board of Works, can be utilised for the erection of machinery. They are repayable in 5 yearly instalments, with interest at the rate of $2\frac{1}{2}$ per cent, or in special cases, in 10 years, at 3 per cent. It is, of course, too early yet to estimate the extent to which the scheme will be taken advantage of. The periods for repayment are much shorter than that specified in the Board of Works' scheme, *i.e.*, 22 years; the rate of interest is lower; no preliminary charge for expenses is made; the money may be expended on machinery, as well as upon buildings; while personal security, and not mortgage security, is sufficient. We may again point out, as we did when dealing with the hay-barn loan schemes, that there seems to us an undesirable anomaly in two Irish State Departments administering side by side distinct schemes of agricultural loans intended to fulfil the same object.

*Loans for the Erection of Dwellings for Agricultural Labourers.*23 Vic., c.
19

686. The number of loans sanctioned by the Board of Works for the erection of dwellings for agricultural labourers since the passing of the Act of 1860 which first authorised advances for the purpose is 1,011, amounting to a total of £407,814, of which 15, amounting to £3,760, were approved in the year ended 31st March, 1913. Under the *Land Law Act* (1881) loans were made to tenant farmers who, as a condition attached to the fixing of a fair rent, erected labourers' dwellings on their holdings, such tenants being deemed to be persons to whom a loan may be made under the *Landed Property Improvement (Ireland)*.

* Report of Departmental Committee on the Irish Flax-growing Industry (Cd. 5502), 1911, p. 17.

Acts for the improvement or building of dwellings for labourers, as if they were owners. Since the Act came into operation, 260 such loans, amounting to £15,275, have been sanctioned.

Loans of this nature have, however, practically ceased, as a result of legislation empowering Local Authorities to borrow for the erection of labourers' dwellings.*

Relation of Board of Works' Loan Schemes to those of other Government Departments.

687. At first sight it might seem that the fact of the Congested Districts Board having in operation in the Western districts schemes of grants and loans for the erection and improvement of dwelling-houses and out-offices would largely account for the limited extent to which the farmers of the Province of Connaught avail themselves of the loan system of the Board of Works. But seeing that the Congested Districts Board definitely exclude from their lending schemes for these purposes agricultural landholders whose valuation exceeds £7, while the Regulations governing the Board of Works' schemes, as we have indicated, prevent these loans reaching tenant-purchasers whose valuation is below £7, or tenants whose judicial rent or Poor Law Valuation is below £12, it seems obvious that the limited degree to which the Western farmers make use of the Board of Works' loans cannot, to any considerable extent, be due to the operations of the Congested Districts Board in this sphere.

Paras. 669-670

Para. 704

Para. 671

Nor again can the financial aid given by the Estates Commissioners or the Department of Agriculture to farmers for various agricultural purposes be considered as competing with the land loans of the Board of Works, the objects of the advances being to a large extent different. Care is also taken, we are informed, to avoid as far as possible the giving of financial assistance by two State Departments to the same borrower. Thus Mr. Hanson, in reply to the question, "Is there any co-operation between the Board of Works and the Estates Commissioners in the matter of loans?" replied: "There is not so much co-operation as mutual care to prevent overlapping. The Estates Commissioners sometimes lend and sometimes grant money when they set up a man in a new holding, and if he comes to us also we inquire from them what they did for him, and what the money they gave him was supposed to cover, so that we should not be doing the same thing. . . . The same way in regard to the Congested Districts Board. We also tell our Inspectors to see if a man has got a loan from the Congested Districts Board, and if so, we get reports."

148-9

We have little doubt, however, that in those cases where farmers are equally qualified to borrow under the Board of Works' schemes and under the schemes administered by the other Government Departments referred to, the greater elasticity and, as a rule, the easier conditions as to security, &c., of these other schemes will continue to limit the part played by the Board of Works' loan system in the sphere of agricultural credit (especially amongst the smaller classes of farmer most in need of such assistance), unless the conditions governing this system be modified in the directions suggested in our Report.

MORTGAGE SECURITY AND PERSONAL SECURITY.

688. The Department of Agriculture in connection with the majority of their loan schemes do not require any charge upon the borrower's holding, but satisfy themselves, after due inquiry, with the personal security of the borrower, supported by that of two or more approved sureties. That this arrangement has been found perfectly satisfactory is shown by the fact that out of a total of £88,484 lent to farmers and associations of farmers (apart from the sum of £18,292 advanced to Credit Societies) up to the 31st March, 1913, in 3,029 separate loans, the sum of £63,819 had been at that date repaid, legal action being necessary in comparatively few cases.

It is undeniable that in some classes of loan, as for the erection of substantial farm buildings, the only safe security for the lender is a charge upon the land. Thus the Department of Agriculture require such security in their scheme for the erection of Village Agricultural Halls. But in the majority of agricultural loans—as for the erection of hay-barns and similar structures required by farmers, for the supply of fencing, and for similar objects—we think that the personal security of two or more approved sureties in addition to that of the borrower would prove in most cases quite sufficient: the expense and delays entailed by the process of obtaining a charge upon the holding would thus be largely eliminated. If judicious inquiries were to be made in regard to the character and financial position of the borrower and his proposed sureties, the risk incurred in lending would be trifling (as exemplified by the few cases in which the Department of Agriculture have

* *Report of the Commissioners of Public Works*, (Cd. 6971), 1912-13, p. 33.

had to take legal action in connection with their advances on personal security), while the consequent simplification of the system would render it much more readily available for the small farmer.

Public Advertisement of Proposed Loans.

689. A frequent cause of delay in the obtaining by farmers of advances from the Board of Works is the statutory requirement under which the Board has to advertise a proposed loan (this is done both in the *Dublin Gazette* and *General Advertiser* for loans under the Act of 1847, and in the *General Advertiser* and a local newspaper for loans under the Act of 1881) in order that any encumbrancers or others interested in the land in question may have an opportunity of objecting to its being made. The Acts provide for an inquiry by the Board in case such an objection is lodged. We were informed by Mr. Hanson that no occasion for the holding of an inquiry has arisen in recent years, and that in his opinion the necessity for advertising might be dispensed with. It is needless to point out that this public announcement in the Press of intended borrowing by a farmer must inevitably act as a deterrent in many cases to these loans being applied for. Few borrowers are willing to have their financial transactions thus made known from the housetop; and the agricultural classes are probably the most reticent in this respect.

We consider that this necessity for public advertisement should be removed, a discretion being left to the Commissioners to take such a course when deemed advisable.

SUMMARY OF PROCEDURE CONNECTED WITH BOARD OF WORKS' LOAN SYSTEM.

690. The following extract from the Memorandum kindly supplied to us by Mr. Hanson gives in a concise form the procedure necessary before a farmer can obtain a loan from the Board of Works:—

“When anyone applies for a loan, the first step is to send a query form which enables him to give some particulars of the work for which the loan is required, and the land which is to be improved. The next step, if the case appears a suitable one, is the presentation of a formal memorial applying for the loan. After this the Board's Solicitor inquires into the applicant's title, and this being shown to be satisfactory, a preliminary inspection of the holding is made by one of the Board's staff of Inspectors, technically qualified men, with knowledge both of land valuing, practical farming, and the construction of buildings and other works.

The principal points to which the inspection is directed are the suitability of the proposed work to the holding, its financial practicability and the state of the holding itself, as showing the capacity and industry of the applicant. The report also comprises a full description of the holding, and the method of its cultivation, with an estimate of its value as security for the loan. Besides making this report, the Inspector either prepares plans, specifications, and estimates for the proposed work, or revises those submitted by the applicant.

If upon this report the loan is approved the next step is to advertise it. This is a statutory requirement in order that any encumbrancers or other persons interested in the land may have an opportunity of objecting to the loans being made, and the Acts provide for an inquiry by the Board in case such an objection is lodged. In practice, however, no occasion for an inquiry has arisen in recent years.

After the period laid down for advertisement has concluded, and Treasury sanction to the loan has been obtained, the legal securities are perfected, and the borrower is then at liberty to begin the work. Instalments of the loan are issued as the work progresses, on the report of the Board's Inspector that it has been carried out in a satisfactory manner. The usual practice is to issue instalments in arrear, *i.e.*, after the borrower has expended or incurred liability for an equal sum. If instalments in advance are required, a special bond has to be executed for their due expenditure.”*

System of loans not sufficiently elastic for needs of small farmers.

691. Your Committee are convinced from the evidence they have received, and from the consideration which they have given to the present extent and operations of these loan schemes, that on the whole they are unsuitable for the present long term credit requirements of the small farmers of Ireland. The delay caused by inquiries as to title and by the statutory requirement as to advertising; the high minimum limits of the loans; the natural objection in many cases to the public announcement of a farmer's intention to borrow; the deduction of a fairly heavy charge for expenses—combine, with other conditions, to make the system one which, while it may be suitable to the needs of landlords and large farmers, undoubtedly deters the small class of agriculturist. The present want of elasticity in the system is, we fear, fatal to any prospects of its successfully taking the important part which it otherwise might in the development of long-term agricultural credit in Ireland. The attitude of the majority of small farmers towards the system may be summed up in the phrase used by a County Donegal witness, “we cannot see it open.”

In some districts also, general ignorance undoubtedly prevails as to the terms on which these loans can be obtained from the Board of Works. This was found to be the

* See Appendix 10 to Minutes of Evidence.

case ten years ago in connection with the Inquiry into the condition of tenant-purchasers. "In many cases small tenants were anxious to get money on loan from the Board of Works for the carrying out of various improvements on their holdings, but they did not know how to go about the matter or under what conditions loans are given."* We have no reason to doubt that similar ignorance prevails to a large extent to-day.

NEED FOR REORGANISATION OF BOARD OF WORKS' LAND LOANS SYSTEM.

692. Your Committee believe that with perfect safety to the lender much could be done to render this system of long-term loans more beneficial to Irish agriculture, and especially to the smaller farmers. It is obvious that where the period of the loan is necessarily extended over a considerable term of years, the agency of a Co-operative Credit Society cannot meet the need; although for a short term of years, with the loan repayable by regular instalments, much could be effected by strong Credit Societies, especially in advances for the purchase of live stock. The Congested Districts Board, the Estates Commissioners, and the Department of Agriculture have each, as is made clear in our Report, done much in the way of loans and grants to assist the smaller agricultural classes. The Board of Works has also in former years performed valuable services by its loan schemes, especially in times of exceptional distress; but this system of aid for land improvement purposes is, as we have shown, adapted more for the requirements of landlords and larger farmers. Paras. 715-8.

We are, therefore, in full accord with the recommendation of the Forestry Committee, who, after making certain proposals for changes in the Board of Works' loan scheme for forestry, added; "it seems to us the time has come when the whole system of land improvement loans for other subjects besides tree-planting should be put on a new basis and adjusted to the circumstances created by the Land Purchase Acts, and by the schemes of agricultural improvement now being carried out in every county under the Agriculture and Technical Instruction Act. It should be possible also, as is now the case in a certain class of loans to occupiers, for tree-planting loans to be included with loans for general improvement, such as drainage, affecting other parts of the holding. By this means the area of security would be widened; and if the improvement loans are also only made in accordance with expert advice, the security of the State would receive a further strengthening."†

Co-ordination of schemes of Board of Works and of Department of Agriculture.

693. Your Committee are of opinion that if such a reorganisation of functions were found to be feasible, the most satisfactory plan would be for the administration of the purely agricultural loans now advanced by the Board of Works for such purposes as tree-planting, fencing, &c. to be transferred to the Department of Agriculture, who have in their large staff of Agricultural Instructors and Overseers scattered through the country, and working both directly under the Department and under the County Committees of Agriculture, an exceptionally ready and inexpensive means of ascertaining the requirements and standing of farmers applying for loans, and the probability of such loans being used to advantage.

Recognising, however, that the existing loan schemes of the Board of Works have been gradually built up as the result of various Acts of Parliament—many of them passed before the Department of Agriculture and other lending State Departments in Ireland were in existence—and that any transfer of the administration of portion of these loans from one Department to another would entail obvious difficulties and necessitate legislation, we recommend as an intermediate course, though one much inferior in principle, that as far as possible the operations of the Board of Works and of the Department of Agriculture in the administration of their loan schemes for agricultural purposes should be more definitely co-ordinated. For instance, the opinion of the County Agricultural Instructor as to the advisability of making a loan in a particular case might often prove exceedingly useful to the Board of Works. Again, the Agricultural Credit Section of the Department, suggested in our Report, would probably furnish a useful agency for bringing about greater co-ordination between the agricultural lending operations of the two Departments. It would be most desirable, therefore, that a representative of the Board of Works should be a member of the suggested Advisory Committee in connection with this Credit Section. Paras. 642-644,
737.

But it is exceedingly improbable that the Board of Works' land loan schemes can be made adequate to the long-term credit requirements of Irish agriculture, unless important changes are made, whether by legislation or by Regulation, in some of the directions indicated in this section of our Report.

* *Report of an Inquiry into the present condition of Tenant-purchasers under the Land Purchase Acts (92), 1903, p. 21.*

† *Report of Departmental Committee on Irish Forestry (Cd. 4027-1908), para. 77.*

CONCLUSIONS.

694. Our conclusions and recommendations in regard to the Land Loan Schemes administered by the Board of Works may be summarised as follows :—

(a) These loan schemes are of special importance in relation to rural credit in Ireland, as being the only system of long-term loans for land improvement and similar purposes in force in the country, available for all landowners and farmers fulfilling the prescribed conditions.

Paras. 654–5

(b) The Arterial Drainage Loan Schemes of the Board are admittedly quite insufficient to cope with this urgent problem. The operations of the Land Purchase Acts have brought about conditions calling for a modification of existing legislation in regard to drainage; and State action on a considerable scale is essential, if the serious financial losses to farmers through flooding are to be prevented or diminished.

Paras. 656–8

(c) In past times, especially during the period of the famine, large amounts have been advanced by the Board of Works for drainage purposes; but during the three years ended March, 1913, only £688 was lent by the Board for river drainage throughout the whole country, and £300 for drainage maintenance; an annual average of little over £300. These loan schemes are therefore now practically negligible in their operations.

Paras. 668–9

(d) Of the total advances of £109,000 made in the year 1912–13 under the land loan schemes, over 97 per cent. was for farm buildings and cottages alone, the larger proportion of this being represented by hay barn loans. Less than 3 per cent. of the total amount was lent for the purposes of field works, land reclamation, drainage, &c.

Paras. 678–9, 664

(e) The reluctance of many farmers to increase unduly the burden upon their holdings is one reason of the limited resort to the Board of Works' loans, while the cost of labour, and the necessity for incurring initial expenses in addition to interest, are other factors.

Paras. 671–3,
689–692

(f) The fact that under the Regulations no loan for less than £100 can be granted under the *Land Improvement Acts* (save in the case of farm buildings, when £50 may be granted) nor under the *Land Law Act* for a less sum than £35, is one of the main causes for the very limited operation of these schemes, which are not sufficiently elastic for the needs of small farmers. The necessity for public advertisement of the proposed loan is another hindrance which might be abolished with advantage.

Para. 671

(g) A tenant-purchaser of a holding of less than £7 Poor Law Valuation is outside the scope of the schemes, while a tenant whose judicial rent or Valuation is under £12 is in a similar position. Thus very large numbers of Irish farmers are ineligible to obtain these useful loans.

(h) The present Regulations (and, if necessary, existing legislation) should be amended so as to permit of the minimum loan being reduced to £10 or £15, and the benefits of the schemes made available for farmers below £7 in valuation.

Para. 688

(j) As charges on the land would entail undue trouble and expense in the case of small loans, approved personal security should be accepted in suitable cases; such security has proved entirely satisfactory in connection with other State loan schemes in Ireland.

Para. 677

(k) The security of several adjoining small holdings should be accepted in suitable cases for advances to be used jointly for purposes of land reclamation, &c.

Paras. 680–3,
692–3

(l) The operations of the tree-planting loans of the Board of Works are negligible, the average being three loans per annum, while no loan has been made during the years ending March 1912 or 1913. As the Department of Agriculture is the Forestry authority for Ireland, the administration of such loans should be made a portion of the Department's forestry functions. There might also be increased co-ordination between the various lending operations of these two Departments.

Para. 665

(m) The charges on registered land in connection with the loan schemes of the Board should be registered with the Land Registry, and not, as at present, with the Registry of Deeds; any legal difficulties which may exist should be removed.

(b) AGRICULTURAL LOANS AND GRANTS MADE BY THE CONGESTED DISTRICTS BOARD.

The various schemes of loans and grants administered by the Congested Districts Board in the congested areas have naturally a very important bearing upon the question of agricultural credit in these districts. This Board was established in the year 1891* with a view to dealing with the special economic problems of the poorer Western parts of Ireland.

Needs of "congested" districts found also in non-scheduled areas.

695. Full particulars as to the principles adopted in scheduling districts as congested may be found in the Report of the Royal Commission on Congestion in Ireland.† Generally speaking it may be said that no electoral division in any county was scheduled unless one-fifth of the total population of the county lived in electoral divisions where the average valuation per head did not exceed 30s. This necessarily arbitrary arrangement—possibly the best under the circumstances—was not wholly satisfactory, for it excluded from the Board's operations a certain number of poor electoral divisions in the other counties of Ireland where the average valuation was only 30s. per head, or less. But it would have been impossible for the Board to deal with isolated areas scattered all over the other three Provinces; it was essential that their efforts should be centred in a fairly homogeneous, self-contained area.

Your Committee think it well, in view of the attention which has been directed to the economic conditions prevailing in the specially scheduled districts, to lay stress upon the fact, frequently confirmed by the evidence received at our Inquiry, that the position of numbers of small farmers in other parts of Ireland in respect to the credit and capital needed for the stocking and improvement of their holdings is in no respect more satisfactory than that of agriculturists holding similarly sized farms in the congested areas.‡ We find that this opinion is supported by the view of the Royal Commission on Congestion, who stated: "We both heard and saw sufficient to convince us that in some counties besides those containing scheduled districts, there are considerable areas of agricultural congestion, and in many others there are scattered spots standing in need of relief."§

In passing, we may say that for convenience' sake we retain the use of the term "congested," although the scheduled areas are not congested in the usual sense, the population there being by no means dense. "The term as applied to them means little more than exceptionally poor; the average valuation in the congested districts of each acre of land occupied by agricultural holdings is 3s. 6d., whilst the corresponding average for the rest of Ireland is 12s. 1d. Hence the trouble is not the scarcity of land, but the scarcity of any but the poorest land. . . . No doubt the fact that emigration—a remedy usually reserved for congestion properly so-called—was the panacea for the distress existing in the West of Ireland led to these poor areas being rather inappropriately described as congested districts."|| Unsuitable as the term is, it has now received the sanction of time.

INDUSTRIES SUBSIDIARY TO AGRICULTURE AS A MEANS OF INCREASING THE FARMER'S INCOME.

696. A special feature of the agricultural economy of the congested districts is the difficulty often found in supporting a family upon the products of the land alone; secondary sources of income, often of a rather precarious nature, have been, and are still to a large extent, relied upon to make ends meet. Rural industries, including the making of home-

See paras. 758-765

* By the Act 54 and 55 Vic., c. 48. (*Purchase of Land (Ireland) Act, 1891.*)

† Cd. 1097—1908, paras. 5-20.

‡ By Section 46 of the *Irish Land Act, 1909* (9 Ed. VII., c. 42), the counties of Donegal, Sligo, Leitrim, Roscommon, Mayo, Galway and Kerry, together with six Rural Districts in County Clare, were each defined as forming one Congested Districts County, four Rural Districts in County Cork forming another such Congested Districts County.

§ Since the year 1909 the area of the congested districts exceeds one-third of Ireland, the population of these districts is about one-fourth of the total population of the country, while the rateable valuation is about one-seventh of the total valuation of Ireland. The congested areas contain over one-third of the rural population, but only one-sixteenth of the town population of Ireland.

||Cd. 4097—1908, para. 311.

||*Ibid.*, para. 8.

spuns, lace making, knitting, &c., play an important part in the maintenance of the home of many a small farmer ; while in numerous cases the sale of seaweed and turf, and gifts from relatives in America, add materially to the household income.

Another striking feature of portions of the congested districts is the extent to which a large number of agricultural labourers and small farmers add to their scanty resources by their earnings in Great Britain as migratory labourers for five or six months in the year. This practice and the causes which have led to it have an intimate connection with the general problems of agricultural labour in Ireland, which do not come within the scope of our Inquiry.

Earnings gained by sea fishing are often of more importance to the farmers on the West coast than any profit obtained from agriculture. Although the special circumstances of this class, half farmer, half fisherman, were brought under our notice in evidence, we have not considered it necessary to give their case separate consideration. We believe that the recommendations made in our Report for the improvement of facilities for obtaining capital for reproductive purposes by small farmers would cover the requirements of the great majority of the class to whom we have referred, when taken in conjunction with special loans and grants for fishery purposes. The development of the fishery industry on the Western coasts, and its requirements in regard to capital, are, we understand, receiving constant consideration from the Congested Districts Board.

Some Family Budgets showing receipts and expenditure.

697. In the Board's first Annual Report some interesting estimates are given, founded on individual inquiries, as to the receipts and expenditure of families in the Western districts dependent upon agriculture alone, or upon agriculture combined with home industries, fishing, &c., for their livelihood. We insert here three of these family budgets, representing various types of family in ordinary circumstances, but not including the poorest class of all. There is little doubt but that in the twenty years which have elapsed since these inquiries were made, the average position of the Western small farmer has improved ; but the fact still remains that the standard of living is low, even in the better-off districts.

(I.)

Receipts and Expenditure of a family *in ordinary circumstances*, the receipts being derived *altogether from Agriculture*.

RECEIPTS.				EXPENDITURE.			
		£	s. d.			£	s. d.
Sale of butter	10 0 0	Rent	7 0 0
Sale of cattle	10 0 0	Cess and Rates	1 2 6
Sale of pigs	5 0 0	Clothing	6 0 0
Sale of sheep	4 0 0	Meal and flour	8 0 0
Sale of eggs, wool, &c.,	3 0 0	Groceries	4 0 0
				Miscellaneous	3 0 0
		£32	0 0			£29	2 6

Home produce consumed by the family is valued at about £12.

(II.)

Receipts and Expenditure of a family *in ordinary circumstances*, the receipts being derived from *Agriculture and Home Industries*.

RECEIPTS.				EXPENDITURE.			
		£	s. d.			£	s. d.
Sale of eggs	2 17 6	Rent	3 0 0
Sale of fowl	0 10 0	Cess and taxes	0 11 0
Sale of cattle	7 0 0	Meal	6 6 0
Sale of sheep	2 16 0	Flour	6 5 0
Sale of wool	0 11 8	Tea	5 4 0
Sale of pigs	7 0 0	Sugar	1 12 6
Sale of hay	3 0 0	Tobacco and snuff	2 16 4
Sale of corn	1 10 0	Light, soap, salt, &c.	1 3 7
Sale of butter	3 6 8	Purchase, &c., of young stock	4 6 0
Sale of turf	1 10 0	Clothing	6 7 0
Grazing payments	1 5 0				
Embroidery work or knitting	5 4 0				
		£36	10 10			£37	11 5

Home produce consumed by the family is valued at about £15.

(III.)

Receipts and Expenditure of a family in ordinary circumstances, the receipts being derived from Agriculture, Fishing, and Home Industries.

RECEIPTS.			EXPENDITURE.		
	£	s. d.		£	s. d.
Sale of heifer or bullock ...	4	10 0	Rent ...	2	0 0
Sale of five sheep ...	3	5 0	County Cess ...	0	5 8
Sale of pig ...	3	10 0	Tea ...	5	17 0
Sale of eggs ...	2	4 4	Sugar ...	1	19 0
Sale of flannel or tweed ...	3	10 0	Meal ...	7	14 0
Sale of corn ...	0	15 0	Flour ...	1	17 6
Sale of fish ...	8	0 0	Clothing ...	6	8 6
Sale of knitting, &c. ...	1	0 0	Tobacco ...	2	7 8
			One young pig ...	0	15 0
			Implements, &c. ...	1	4 9
	£26	14 4		£30	9 1

Home produce consumed by the family is valued at from £5 10s., to £10.

Importance of Rural Industries in raising standard of comfort.

698. In their Report for 1911-12 the Board make the following reference to the financial position of the possessors of holdings on the Western coast :—"The sea-board tenants could not support themselves out of their little farms. Their other sources of income are sea-fishing, seaweed burning for kelp, sale of turf for fuel, acting as boatmen or attendants to anglers or to persons who take shootings, going as migratory labourers to agricultural districts in Great Britain or in other parts of Ireland. Women and girls in many places can get employment in some of the various sorts of industries introduced by the Board, such as lace or crochet making, knitting, embroidery, the making of carpets and lace curtains, and also in carding, spinning and dyeing the wool used in the manufacture of homespun tweeds. These several industries for men and women do not all co-exist in each locality, but there are comparatively few places along the sea-board where important additions to the produce of the farm are not to be found. Our efforts to improve the resources and provide a more comfortable life for the people of the western coast must be directed towards industrial rather than agricultural development."*

Your Committee are in full agreement with the view thus expressed as to the importance of the development of small rural industries not only in these Western areas, but throughout the country generally. Immense potentialities exist in this sphere which remain undeveloped partly through lack of adequate facilities for obtaining capital and credit on suitable terms. The fact that the earnings of the lace and crochet classes conducted under the Congested Districts Board during the year ended 31st March, 1912, amounted to £30,616, of which over £16,000 was earned in County Mayo, will give some indication of the help thus afforded to the households of struggling farmers. In referring to the fact that almost £4,000 was thus earned by a single class in one of the poorest districts in County Mayo, the Board point out that "such an amount paid in wages means that most of the families which used to struggle in painful poverty are now enabled to live in comparative comfort."

Paras. 758-765.

Beneficial results of Land Purchase operations upon financial position of western farmers.

699. A useful sketch of the condition of the population of the congested districts is contained in the Nineteenth Report of the Board, issued after the re-organisation of the Board and the increase in its finances brought about by the Land Act of 1909. The Board there express the opinion that while the population has diminished numerically since the formation of the Board in 1891, the condition of the inhabitants has undergone a very great change for the better, due to the fixing of fair rents and to Land Purchase, the influence of literary and technical education, the opening up and completion of communications, the administration of Public Health Acts, aided by voluntary associations, and the raising of the standard of living as regards food, clothing and habits. "The occupiers of land who have been able to take advantage of the Land Acts have gained financially to the extent of the reductions in their rents or instalments, and not only are their financial resources proportionately increased, but a stimulus has been given to them to improve their property. Owing to the improvement of communications, prices for produce are also better in the districts so opened up."†

* Cd. 6553-1912, pp. 11-12.
† Nineteenth Report of the Congested Districts Board, Cd. 5712-1911, p. 8.

Wide Powers of Congested Districts Board in assisting Agriculturists.

700. In considering the question of the financial assistance rendered to agriculturists by the Congested Districts Board, it must be borne in mind that the Board were given very wide powers and discretion for the improvement of the congested districts. They were empowered to take such steps as they thought proper in aiding migrants or emigrants from the congested districts, increasing the size of holdings, and developing agriculture by improvement of live stock and methods of cultivation, both by direct and indirect means. They were also empowered similarly to aid and develop all suitable industries, including fishing, weaving and spinning, &c. No other Government Department in Ireland has been left so unfettered as to the objects upon which its funds may be expended, and the methods of such expenditure.

The increase in the Board's annual income in the year 1909 from £86,250 to £231,000 was naturally of material assistance in extending their operations. The Board rightly regard their most important function as being the purchase of land from landlords and its resale to tenants, after making any needed improvements. In a recent Report* the Board state:—"It is in the re-arrangement of small holdings and in the making of new farms and houses for migrants that the largest expenditure of capital is made; and it is in such inland districts, where untenanted grass land is available, that the really satisfactory work of the Board from an agricultural point of view is done. We are able in such localities to provide many families with holdings sufficient for their support, and there are still more instances in which we can greatly improve the condition of other families by increasing the size of their farms. In such parts of the country also, holdings are re-arranged and consolidated, so that a farmer is very often given a new holding, consisting of one plot, or of two or three neighbouring plots, in exchange for a large number of detached and often distant little plots which cannot be worked with advantage by him."

Para. 754.

The making of loans or grants to farmers is in the case of the Congested Districts Board, as in that of the Estates Commissioners, merely a subsidiary part of their operations.

Special circumstances of Poorest Districts on Western Sea-board.

701. Special arrangements have, we understand, been made by the Board in regard to the poorest portions of the Western sea-board, including Connemara and parts of Donegal, Mayo, Clare, Kerry and West Cork, where the estates are not so capable of development by drainage or re-arrangement of holdings as the average inland estate, there being practically no untenanted lands available for the enlarging of any considerable number of holdings. The financially straitened position of this section of the rural community may be seen from the following statement of the Board—

"The transfer of ownership of these estates will have comparatively little effect in directly improving the condition of the people, except to the extent to which ownership may stimulate them to increased efforts in the improvement of their lands and homes. The rents, as a rule, are small, and the difference between these rents and the annuity payable on a reasonable purchase price will not be a sum that will bring substantial relief to the individual landholder of these areas.

"The direct financial benefit of the transfer of ownership in the poorest of these districts is nearly always to be counted in shillings and not pounds, and in a very large number of cases the entire abolition of rents (less than £1 in many cases, and generally under £2), would not appreciably improve the financial position of families that pay such rents. Even if, however, a sufficient number of these people cannot, as we believe, be migrated to inland districts so as to substantially enlarge the holdings of those who remain, we are of opinion that we should assist them to become owners of their holdings and do what we can to help them to improve the conditions under which they live.

"We are of opinion that when we purchase estates in these areas we should, as a rule, retain them in hands for some time, applying the revenue of the estate in giving assistance to the people to improve their houses and out-offices, and in making necessary accommodation roads, and in consolidation of scattered holdings, while at the same time, special efforts would be made to develop the fisheries and other local industries, in order to provide a means of profitable employment for a proportion of the people."†

We note that the Board, after careful consideration, are of opinion that in order to secure fairly satisfactory results from the improvement works done on holdings prior to resale to tenants, not more than one-half of the outlay can be considered as recoverable. They have therefore, set aside a sum of not more than £100,000 a year, out of their income of £231,000, to meet the actual net loss.

The operations of the Board in the sphere of making loans and grants to the new holders are, as we have said, entirely secondary to the main functions of the purchase, improvement and resale of estates. These important functions, which are at the foundation of the success of agricultural development and education, will for a considerable time to come require for their carrying out the larger portion of the Board's funds, and would, therefore prevent the Board taking any share in the furnishing of capital and credit to the new tenant-purchasers commensurate with their current needs.

**Twentieth Report of the Congested Districts Board*, Cd. 6553, 1912, pp. 12-13.

†*Nineteenth Report of the Congested Districts Board*, Cd. 5712-1911, p. 17.

Chief purposes for which credit is required in the western areas.

702. Mr. Henry Doran, permanent member of the Congested Districts Board, in 4578. giving evidence at our Inquiry, dealt very fully with the credit requirements of the land holders in the congested districts. He stated :—

“ The chief purposes for which credit is frequently required by individual occupiers of land in the western or congested districts of Ireland are :—To purchase live stock, artificial manures, seeds, including potatoes, horse-cart and harness, ass-cart and harness, plough or other expensive farm implements, bee-keeping appliances, wire-fencing to protect crops on cultivated land adjacent to mountain commonages ; to provide a new dwellinghouse or substantially improve existing dwellings ; to provide new out-offices or substantially improve existing out-offices ; to provide hay-barns ; to pay for drainage, reclamation, and other improvements of land ; to pay pressing debts at a time when live stock are not profitably saleable, nor the farm produce marketable.

“ There are certain seasons of the year when the ordinary small farmer who lives more or less from hand to mouth, has no money, and at other times he is in full funds. When he is pressed to pay debts he has frequently to part with stock at a time when they are not profitably marketable, thereby incurring a loss, or he may have to let a decree be obtained against him and expense incurred before he can find the money to get out of his difficulty. Then groups of farmers may require money for the building and equipment of a creamery, for egg and poultry development, for the purchase of artificial manures, and various other purposes. These practically exhaust the purposes for which money is required by the small farmer in the western districts.”

The witness went on to point out that the Board of Works' loan system, although suitable to a reasonable extent for the larger landholders, did not meet the needs of those desiring small loans, owing in great measure to the excessive expense incurred ; while tenant-holders whose valuation was less than £10 were virtually deprived of this financial aid. The assistance given by Building Societies for the erection of dwellinghouses on the security of a mortgage is, in Mr. Doran's opinion, rare in the Western districts, while Loan Fund Societies, though often a great convenience in times of temporary difficulty, are unsuited for agricultural credit purposes ; a view with which your Committee are in complete agreement. The Joint Stock Banks, in Mr. Doran's opinion, meet the requirements of the substantial farmer, but are in several respects unsuited to agriculturists in remote districts, and especially to those most in need of financial assistance. The suggestions made by various witnesses in favour of the Joint Stock Banks advancing loans for longer terms than they now do, and modifying the existing conditions as to renewals of bills, so as to meet the requirements of small agricultural credit, have been dealt with by us elsewhere.

Para. 671.

Paras. 254-5, 270

See paras. 62-3, 76, etc.

LOANS FOR AGRICULTURAL PURPOSES MADE BY THE CONGESTED DISTRICTS BOARD.

703. The following figures were supplied to us by Mr. Doran, showing the number and amount of loans made for certain agricultural purposes by the Congested Districts Board from the date of its establishment to the year 1912 :—

	Number of Loans	Amount	Losses
		£	£
For the purchase of Live Stock :—			
By Migrants, since 1907	211	5,043	16
By Tenants who got enlarged holdings and very poor tenants on the Board's estates who have little or no stock upon their holdings	561	7,023	32
	772	12,066	48
For the erection or substantial improvement of dwellinghouses	181	3,629	—
For the erection of out-offices	122	929	—
For the purchase of boats for conveyance of seaweed and sea-sand for manure.	30	303	—
For the purchase of carts and harness ...	13	116	—
For the erection of wire fences in mountainous districts to protect the cropped land from trespass by mountain sheep and other animals	154	1,868	—
To Bee-keepers' Associations for the provision of Appliances	32	258	10
To Agricultural Banks and Credit Societies	80	7,295	—
	1,384	£26,464	£58

During the 20 years, therefore, the average number of loans made per annum under the above schemes was 69, amounting to £1,323.

Presumably large portions of the above advances are still outstanding, and not yet

called in by the Board, so that it is not possible to estimate what the proportion of losses to the total amount lent may yet prove to be.

Para. 720. (A.) *Loans for Erection and Improvement of Dwellings of tenant-purchasers not exceeding £7 valuation.*

704. Since the transfer in 1909 of certain functions in the congested districts from the Congested Districts Board to the Department of Agriculture, the Board have made agricultural loans only for the erection or reconstruction of dwellinghouses, and for the purchase of live stock by migrants and tenants obtaining enlarged holdings. We print in the Appendices to our Report details of these schemes.* In order to assist tenant-purchasers of agricultural holdings, with a rateable valuation not exceeding £7, to obtain suitable dwellinghouses, the Board will advance a limited number of loans to approved applicants for sums not exceeding the cost of the price of the materials and of the skilled labour. Such loans must not be less than £10 or more than £50 in amount ; and the borrower must find at his own expense all stones, sand, and unskilled labour. The terms of repayment vary with the nature of the loan ; thus a loan for the erection of a new dwellinghouse with a slated roof is not to exceed £50, repayable in 40 or 50 years by half-yearly instalments of 16s. 9d., and 14s. 3d. respectively ; while for the erection of a dwellinghouse with thatched roof, a loan may not exceed £20, repayable in 20 years by half-yearly instalments of 11s. 8d. Loans for the substantial improvement of, as distinct from the erection of, dwellinghouses, are governed by other specified conditions. The money is not usually advanced by the Board direct to the borrower, but is paid to the merchant supplying the materials. All loans of this nature must be secured by a mortgage or charge on the holding, and no person obtaining such assistance can receive a Parish Committee grant in respect of the same work.

Operations of Dwelling House loan scheme hindered by difficulties of Title.

4794 705. Mr. Doran informed us that the Congested Districts Board had decided in 1911 to make loans under this dwellinghouse erection and improvement scheme to the amount of £15,000 a year for a few years. “ The loans are to be secured by a deed of charge upon the holding ; but owing to the difficulties with many tenant-purchasers in showing satisfactory title to their holdings the scheme has made very little progress during the past year.”

The limited extent to which these loans have been made, as compared with the extensive demand for them, is seen from the following figures for the year 1911-2.†

COUNTY.	Loans applied for		Loans Sanctioned	
	Number	Amount	Number	Amount
		£		£
Clare	22	795	2	60
Cork	28	1,160	4	190
Donegal	13	460	—	—
Galway	68	2,989	11	455
Kerry	149	4,957	2	60
Leitrim	76	2,530	3	150
Mayo	161	6,420	38	1,505
Roscommon	67	2,485	6	300
Sligo	41	1,710	—	—
	625	£23,506	66	£2,720

Thus only a little over one-tenth of the applications were sanctioned ; while of the sum of £2,720 sanctioned, only £915 had been actually advanced by 31st March, 1912. 351 applications of the 625 were refused, or over 56 per cent., chiefly because the applicant could not show a satisfactory title to his holding.‡ It is regrettable that this potentially useful scheme should be thus limited in its effectiveness by difficulties of title, difficulties which, as we have shown, greatly hamper also the working of the Land Loans of the Board of Works. Where approved personal security is obtainable, we believe that, as shown by the experience of the loan schemes of the Department of Agriculture, such security would, as a rule, prove quite satisfactory ; but the difficulty of obtaining this security would probably be much greater in the poorer parts of the congested areas than elsewhere.

Para. 688. *See Appendix 13 to Minutes of Evidence.
†*Twentieth Annual Report of Congested Districts Board*, Appendix XV., p. 49.
‡For the provision of Land Act of 1909 in regard to the transfer of equities of tenants in certain cases, see para. 791. During the year 1912-3, only 244 loans were applied for ; 138 loans, amounting to £5,297, were sanctioned, and the sum of £1,721 was advanced in 59 loans (Cd. 7312-13, p. 44).

We are not in a position to estimate how far small landholders are discouraged from making improvements in their houses and out-buildings by the fear of having their Poor Law valuation raised, and, as a consequence, the already high rates still further increased. In all probability this consideration has its influence in many cases. Some such scheme as that suggested by the Royal Commission on Congestion,* exempting holdings of below, say, £20 valuation, for a certain number of years from an increase in valuation on the ground of improvements effected in the house or out-offices, would tend to diminish any obstacle due to the cause referred to.

(B.) *Advances for the Erection and Improvement of dwellings of Tenants on Estates purchased by the Board.*

706. In addition to the above aid given only to tenant-purchasers not exceeding £7 valuation, the Board also assist tenants on estates purchased by them to build new houses or to reconstruct old houses by making advances (subsequently included in the sale-price of the holdings), such advances not exceeding the cost price of the materials and skilled labour. A tenant whose valuation is not over £7 may obtain an advance (including free grant) not exceeding £65 for the purpose. If his valuation does not exceed £4, he can get as a free grant £10 or £15 of the money, according to the method of roofing adopted. If his valuation is over £4, but not over £7, free grants of £7 10s. and £10 are similarly paid. If his holding exceeds £7 rateable value, he will not get a free grant, but may get an advance not exceeding £75. All tenants obliged to move from their old houses in connection with the striping of land now get a free grant of £30, in addition to the advances above described, if they erect a new house. If they do not do so, the Board may build the house, charging the full cost, less £30, on the sale of the holding. Advances, but not free grants, are also made to tenants who improve existing dwelling-houses in certain directions. The tenant must find the necessary stones, sand, gravel and unskilled labour.†

In regard to out-offices, a tenant who has not got an advance for the erection of a dwellinghouse or other buildings may get an advance not exceeding £10 for the erection of an out-office of certain dimensions ; no free grant is made if an advance is given. Free grants of £3 are paid to tenants not over £7 valuation who erect approved new out-offices but do not obtain an advance, while free grants of £3 are also paid to migrants of any valuation who erect additional out-offices under specified conditions, and do not obtain an advance to assist them.

The Board had up to March, 1912, made advances for the above purposes of £30,234 to 1,377 landholders, of which £7,547 was advanced during the year 1911-12, (£4,538 in advances repayable with the Land Purchase annuities, and £3,009 in free grants.)

(C) *Free Grants through Parish Committees for Erection and Improvement of Dwelling-houses and Out-offices.*

707. The aid given by the Board to farmers for the erection or improvement of their dwellings is not confined to the schemes above described. Under the Parish Committee Scheme‡ small free grants for these purposes are also made, not exceeding £7 10s. in the case of slated houses of a certain size, and £3 in the case of out-offices. This scheme is confined to agricultural landholders whose valuation does not exceed £7.

In the year 1911-12, payments were made through Parish Committees for the following objects :—

	Number of free grants.	Amount
		£
For new dwelling-houses ...	320	1,524
For dwelling-houses improved	6,554	8,201
For new out-offices ...	1,666	3,160
For out-offices improved ...	625	880
Total ...	9,165	£13,765

The estimated total cost of the work done with the aid of the above grants was £62,446.

*Cd. 4097 (1908), para. 253.
†It will be noted that the above scheme has been altered in several details since Mr. Doran gave evidence at our Inquiry in regard to it. (See Minutes of Evidence, 4794).
‡See Appendix 13 to Minutes of Evidence, pp. 538-541, for details of Scheme.

Question of adequacy or otherwise of scheme for out-offices.

708. In speaking of the provision of out-offices for migrants, Mr. Doran expressed disagreement with the opinion conveyed to us on behalf of the Department of Agriculture that there was a need for more out-office accommodation for this class, whether provided by the Board direct, or by means of a loan. He said :—

“ Migrants can get gradually together, with little or no expense, sufficient stones and sand to add to their out-buildings, and many of them can build, in rough but sufficiently good masonry, the walls of out-offices. Many landholders are too ready to borrow if permitted to repay the loan by instalments spread over long periods. The Board are opposed to lending money for the execution of any work the landholder can do himself, even though it may entail a great effort on his part. Any man fit to work, and manage a new or enlarged holding, is able to gradually add sufficiently to the out-office accommodation provided by the Board without increasing his annual charges by way of repayment of a loan, or addition to purchase-money. I am of opinion that the facilities at present afforded for the erection of buildings to landholders in the congested districts, through the Congested Districts Board (save the difficulty about making title already referred to), and the Board of Works, are adequate, provided the Board of Works reduce the minimum rateable valuation of a holding, upon the security of which they will make a loan from £10 to £7, or that the Congested Districts Board will increase their maximum valuation limit from £7 to £10.”

On the subject of the adequacy or otherwise of the facilities afforded by the Board to migrants for the erection of out-offices, your Committee do not feel in a position to express any detailed opinion. This much-needed class of work has been in the past assisted by loans to a comparatively limited extent. Only £929 altogether in 122 cases seems to have been advanced by the Board in loans since 1891, and such loans are no longer made. But under the Parish Committee Scheme, non-repayable free grants have been given for this object, amounting in the year 1911–12 to a total of £4,040, in 2291 cases.

We are in agreement with the general principle enunciated by Mr. Doran as to the desirability of farmers doing everything possible for themselves in the erection of out-offices, without State or other assistance, but we believe that in some cases it is possible that aid other than that afforded by the small grants given under the Parish Committee scheme might be found very beneficial in encouraging the erection of satisfactory out-offices.* For this reason we are glad to observe that the recently revised scheme of assistance to landholders and migrants on the Board's estates contains provision for an increase in the aid given by the Board in the erection of out-offices, by establishing a system of advances not exceeding £10 (repayable with the annuities) under certain conditions.

OBJECTS AND WORKING OF PARISH COMMITTEE SCHEMES.

709. The Parish Committee scheme was first experimentally established by the Board in the year 1897 in the Swinford Poor Law Union, “ to encourage landholders to effect improvements by means of grants of money or prizes out of the Board's funds, to be awarded and paid through local Committees, by whom the improvement schemes would be initiated or sanctioned and subsequently started and supervised when approved of by the Board.” The *ex-officio* members of a Parish Committee are, according to the printed Instructions, the clergymen of all denominations holding appointments in the Parish ; magistrates, doctors, County Councillors and District Councillors residing in the parish ; and landlords (or in their absence, their agents), owning land and residing in the parish. If there be also elected members, these are not to exceed six, and are elected by the rated resident agricultural landholders at a public meeting. No shopkeeper or member of a shopkeeper's household can be a member of the Committee.

In 1903 the Scheme in a modified form was extended from County Mayo to the counties of Donegal, Cork, and Kerry, the Board suggesting to the new Committees the adoption of a system of prizes for improvements effected rather than the plan hitherto adopted of grants-in-aid. By March, 1904, forty-three supervisors had been appointed to advise the farmers in the execution of the works under the Parish Committee Scheme, at a remuneration of £828. Only the County of Donegal appears to have adopted the Board's suggestion of a prize-scheme instead of grants. In referring to this the Board said in their 1904 Report :—“ It is claimed that the Donegal system has led to economy in expenditure and supervision, but it is too early to pronounce on the relative merits of the rival systems. Both are doing good.” In order to benefit the poorer class of landholder the maximum limit of Poor Law Valuation for recipients of grants was in 1904 reduced from £10 to £7.

*Much useful information in regard to the nature and character of farm buildings suitable for the needs of small farmers is to be found in the *Report of the Departmental Committee on Buildings for Small Holdings in England and Wales*, (Cd. 6708), issued in March, 1913.

In their Report for the year 1908-9 the Board stated that “no measures adopted by us have been productive of so much immediate improvement in the condition of the people as our various schemes for giving assistance, in building, enlarging or repairing houses, the aid offered having been generally availed of by the landholders in very extensive areas of the scheduled districts.” They added that up to March, 1909, 13,057 grants had been made for the erection or improvement of dwelling-houses, and 13,926 grants for the erection or improvement of out-offices, making a total of 26,983 works, for the execution of which grants amounting to £49,064 had been made through Parish Committees. In addition, over £9,000 had been given for drainage, fencing, &c.

These Parish Committee Schemes were discontinued in the year 1907-8 from lack of funds, but were revived in 1911 in a modified form, the grants being now exclusively confined to the erection and improvement of dwellings and out-offices. The Board intimated that they had in the year 1910-11 set apart £20,000 from their funds for administration in free grants by these Committees, the sum allocated to each of the parishes in the Congested Districts counties being based on the number of rateable agricultural landholders not exceeding £7 in valuation. A sum of £20,000 is now, we understand, annually set apart for these Schemes.

See para. 712.

Expenditure under Parish Committee Schemes in 1911-12.

710. The following is a summary* of the grants made in each County under the Parish Committee Scheme in the year 1911-12 :—

COUNTY.	Number of Committees.	Number of Cases.	Grants Paid.
			£
Donegal	36	2,411	3,043
Leitrim	23	1,044	1,265
Sligo	21	682	984
Roscommon	24	823	1,191
Mayo	45	1,929	3,261
Galway	46	1,101	1,976
Clare	24	317	457
Kerry	28	717	1,200
Cork	13	141	388
Totals ...	260	9,165	£13,765†

Conditions attached to Parish Committee Schemes.

711. All work in a Parish Committee Scheme must be carried out under the guidance of a Supervisor approved by the Board, whose salary is defrayed half by the Committee and half by the Board. This salary must not exceed 10 per cent. of a total grant of £100 ; 12 per cent. of a grant between £50 and £100 ; and 15 per cent of a total grant of under £50. Provision is also made for the employment of a Secretary, whose salary, if an unpaid officer be not obtainable, is not to exceed 5 per cent. of the total grant to the Parish concerned. The Royal Commission on Congestion estimated that the cost of supervision of the work done varied from 5 to 25 per cent. of the amount of grants or prizes, and that it averaged 10 per cent of such amount.‡ The present annual cost of local supervision would, according to this calculation, be almost £2,000.

A useful condition attached to these grants is as follows :—“The Board as heretofore wish Committees to devote special attention to the removal of the cattle from the dwelling-houses. The first grant that can be sanctioned in the case of any applicant who has cattle in his dwelling must be for the execution of a work that will enable him to remove them from the dwelling-house. No grant may be sanctioned for any purpose unless the applicant undertakes that the manure pit will be placed at an approved distance from the dwelling-house, and the existing pit, if unsuitably placed, filled up, and the surroundings of house made tidy.”§

**Twentieth Annual Report of Congested Districts Board*, Cd. 6553-1912, p. 71.

†The estimated cost of the work done was £62,446. The figures for 14 parishes were not available, and are, therefore, not included in the above Table.

‡ Cd. 4097-1908, paragraph 89.

§*Instructions and Suggestions for the Guidance of Parish Committees* (see Appendix 13 to Minutes of Evidence, p. 540).

Your Committee agree, however, with the view of the Royal Commission on Congestion that when help has been given in needy cases to enable sanitary regulations to be carried out, the Public Health laws should be enforced by the officers paid out of public funds for seeing that this work is done.

Large and increasing expenditure on Parish Committee Schemes.

712. The following Table, setting forth the amounts sanctioned annually by the Board in free grants to agriculturists through the Parish Committee Scheme since its inception, shows how greatly this form of assistance, so far from diminishing, has grown in recent years.

Year.							Amounts of Free Grants sanctioned. £
1897	1,520
1898	1,676
1899	2,913
1900-1901	3,250
1901-2	3,788
1902-3	3,680
1903-4	6,933
1904-5	10,361
1905-6	11,245
1906-7	11,051
1907-8	11,346
1908-9	—
1909-10	—
1910-11	20,000
1911-12	20,000
1912-13	20,000
Total ...							£127,763

Of the total amount sanctioned, the sum of £82,323 had been expended up to March, 1913.

Necessity for very careful regulation and limitation of Parish Committee schemes.

713. It is a matter of common knowledge that this method of financially assisting small farmers by free grants from State funds, administered by local Parish Committees and Supervisors, has been adversely criticised as a system of doles based on defective economic principles, and admitting of obvious abuses. Your Committee believe, however, that purely as a temporary measure it has been in the past partially justified in view of the exceptional circumstances of the poorest holders in the Western areas, and also in view of the care apparently taken by the Board that the grants should act as a stimulus to effort on the part of the grantee, the work done being said to exceed considerably in estimated value the amount of the grant. But we at the same time fully agree with the view of the Royal Commission on Congestion* that "Parish Committees should not be regarded as otherwise than of temporary duration," and that as they are "suitable only for a very poor and depressed community," they should not be introduced into the richer portions of the Board's added areas.

We are not in a position to say in detail how far the Board have followed this latter recommendation; but the outstanding fact remains that although the scheme has been now in operation for seventeen years (save for a short interval), this allocation for free grants instead of showing any indications of diminishing, has reached the high figure of £20,000 in one year, or almost six times the annual expenditure of eleven years ago. The areas added to the scheduled Congested Districts by the Land Act of 1909 account for a considerable portion of the increased expenditure. The Scheme was, we understand, in actual operation in the year 1912-13 in 267 of the 332 Parishes in the Congested areas; grants were, however, made to 321 Parish Committees,† leaving apparently only 11 Parishes in the congested areas outside the operations of the Scheme.

In our opinion this particular form of State financial assistance, if admitted at all, requires to be very carefully regulated and limited, all the more so as it is, for various obvious reasons, probably the most popular of the schemes administered by the Board.

Suggestion of Congested Districts Board as to loans repayable with land purchase annuities.

714. In referring to the various schemes for the assistance of new holders in the erection and improvement of dwelling-houses and out-offices, the Congested Districts Board, in

Para. 706.

* Cd. 4097-1909, paras. 250-1.

† 7312-1913, pp. 64-70.

their Report for the year 1910-11, said :—" We are satisfied that a great improvement in the dwelling-houses of the people will result from the application of these three schemes in the course of a few years, but the need for the erection of new dwelling-houses in substitution for insanitary dwellings is so great that we are of opinion that the amount of money which it may be possible for us to lend for the erection of new buildings will meet but a small proportion of the applications likely to be made to us. We, therefore, think it advisable to express the opinion that the same powers should be given to us to meet expenditure in connection with the erection of buildings or other improvements on tenant purchasers' holdings as are given to the Land Commission under Section 30 of the Act of 1909, by which an annual payment in repayment of the advance can be added to the instalment for repaying the advance made for the purchase of a holding."*

This proposal was referred to by Mr. Doran in his evidence at our Inquiry. 4794. It plainly involves a process which affects the administration of the finance of the Land Purchase Acts, and the security upon which the purchase advances are made. It would also presumably entail the supplying of additional State funds for the purpose. Your Committee do not therefore feel in a position to make any recommendation in the matter.

(D.) *Live Stock Loan Schemes of Congested Districts Board.*

715. Another form of agricultural credit dealt with by the Board is that which concerns the advance of capital for the purchase of live-stock. The following is the classification furnished to us by Mr. Doran of the persons in the congested areas needing additional capital for the purpose :—

- “ 1. Landholders who have migrated to new holdings much greater in value than the holdings they vacated, and landholders whose holdings have been enlarged by additional land of substantial value. 4794.
- 2. Landholders who are fairly solvent, but who want an additional cow or two, or some store cattle, sheep, or a horse.
- 3. Very poor landholders who are deeply indebted to shopkeepers, and sometimes owe large arrears of rent. Most of these people are so poor that they cannot get neighbours to go security for them to procure a loan from a bank. If they succeed in scraping together the amount necessary to purchase a cow or other animal, the probability is a creditor would obtain a decree for the debt due him and seize the stock.”

The Scheme† governing live-stock loans states that these loans will only be made to landholders who have got new or substantially enlarged holdings on estates purchased by the Board. The bond is signed by the borrower and by two approved sureties who must be also landholders. No loan is less than £5, and the rate of interest is 3½ per cent. Loans for the purchase of store-cattle are repayable at once in one sum if the stock is disposed of, nor can loans for store-cattle run for more than 3 years, interest being paid half-yearly. Loans for the purchase of a cow or a heifer for stock-breeding purposes, or for a horse, are repayable in 5 years by half-yearly instalments, or at once if the stock is previously disposed of.

Expenditure under the Live Stock Loan Schemes.

716. In the year ended March, 1912, the following were the number of applications received and the live-stock loans issued by the Board under this scheme :—

COUNTY.	Applications received.	Loans Issued.	
		Number.	Amount.
			£
Clare	2	1	17
Donegal	1	1	19
Galway	41	29	514
Kerry	14	13	162
Mayo	60	36	607
Roscommon	95	90	2,012
Sligo	6	5	86
	219	175	£3,417‡

* Cd. 5712-1911, p. 27.
† See Scheme printed in Appendix 13 to the Minutes of Evidence, p. 541.
‡ In 1912-13, 221 applications were received, and 199 loans issued, amounting to £3,346 (Cd. 7312-1913, p. 45).

H. Doran.
4780.

The total amount of these loans issued by the Board to March, 1912, was £12,066, viz., £5,043 in 211 loans to migrants, and £7,023 in 561 loans to tenants who got enlarged holdings, and to very poor tenants. In speaking of these loans, Mr. Doran said:—

4786-7.

“ We give loans for the purchase of live stock required by migrants, not exceeding £50, and we lend to those who get substantial enlargements to their holdings sums which may come up to that amount, if the quantity of land which they have got is of such value that we think they need additional capital to work it. We never refuse a migrant a loan up to £50, where he has got a substantial holding, but I am glad to be able to say that only a small proportion of the migrants have asked for loans for any substantial amount from the Board.

Q. “ Most of them have a little capital ?—A. All of them have some capital. Most of them have almost sufficient capital, and the fear of incurring debt restrains a considerable number of them from borrowing sufficient to enable them to fully stock their land. They prefer to let portion of their land for a year or two, perhaps, in con-acre at a high price, and get into a little capital gradually that way, rather than borrow the amount of money necessary to fully work their land. There may be a difference of opinion as to the prudence of that action on their part.”

Difficulties of Central Supervision of Expenditure of Live-stock Loans.

4794-5.

717. In regard to tenant-purchasers whose holdings were not enlarged, Mr. Doran explained that the Board had not for some years past given loans to landholders of this class, although many had not capital fully to stock the holdings; nor had loans been given for the purchase of carts or farm implements. The number of landholders requiring additional capital for these and similar purposes was so large that the Board could not provide money nor the staff necessary satisfactorily to work a loan scheme that would meet their requirements. One of the Board's officers attended the fairs where the borrowers purchased the stock, and satisfied themselves that animals were purchased for the amounts lent; but this supervision over a large number of purchase transactions was too expensive and cumbersome and could not be continued.

Your Committee were especially interested in the following statement of the witness as to the difficulties necessarily experienced by a central body in attempting to supervise the expenditure of loans of this nature :—

“ Owing to the large increase in the Board's operations in connection with the distribution of untenanted land, they must, in the absence of a local Credit Society, lend the money as a Joint Stock Bank does to the borrower, and trust to him to apply it to the purpose for which it has been borrowed, or, as they would much prefer to do, have these landowners financed under the supervision and responsibility of Agricultural Credit Societies if well managed.

“ We have decided to abandon the practice of sending a man to pay the money to the borrowers at the fairs, because it has become too expensive, and our operations are too extensive now. It was very successful, and we have practically lost no money; but we would like, instead of lending the money on the application of an eligible landholder to have some means of satisfying ourselves that the money is applied to the purpose for which it is asked, and we would prefer that the money would be lent through Credit Societies, which appear a suitable agency for setting up financially the poor, and more or less, helpless, landholders to whom the Joint Stock Banks do not like to lend, and whom prudent friends would be very slow to help. The useful possibilities of Agricultural Credit Societies, as explained in Sir H. Plunkett's writings, for the purpose of procuring special consignments of seeds, manures, and other agricultural requirements, have for years appealed to me. I never believed in Credit Banks.”

Suitability of Credit Societies for dealing with Live Stock Loans.

718. It appears that certain proposals to form Credit Societies in the congested districts for this particular purpose did not come to fruition, owing to difficulties connected with the large size of the advances to be entrusted to the management of inexperienced newly-formed Societies. We have elsewhere expressed our views as to the undesirability of financial aid from the State being given to Credit Societies.

Paras. 595-8.

The evidence we have received proves that a very large proportion of the loans made to members by the existing Credit Societies are for the purchase of live-stock. We are convinced that a great development is possible in this direction, if only a strong, well-organised and supervised system of Credit Societies be gradually established throughout the country, furnished with their capital mainly by local deposits and by overdrafts from the Joint Stock Banks. It would then be possible for loans of say £30 or even £50 for the purchase of stock to be much more widely made to members than at present by the Committees of the Societies, who are well acquainted with the borrower's character and requirements. Such a plan entirely obviates that expensive central system of enquiry into the expenditure of loans which has limited the operations of the live-stock loan scheme of the Congested Districts Board.

Arrangements could, as now, be made under the Rules of a Credit Society for the extension of the period of repayment of a loan for several years, where necessary, in cases of expenditure upon live-stock, such loans being repaid by regular annual instalments.

VIEWS OF ROYAL COMMISSION ON CONGESTION AS TO NEED FOR INCREASED
AGRICULTURAL CREDIT IN THE CONGESTED DISTRICTS.

718A. We may conclude our consideration of the existing forms of State financial assistance to landholders in the West, as administered by the Congested Districts Board,* with the following extract from the Report of the Royal Commission on Congestion, whose function it was to devote to the consideration of the special circumstances of the congested districts much more time and attention than it was possible for your Committee to do. That Commission, after making certain suggestions in regard to the need for limitation on mortgaging of holdings, went on to say :—“ Such provisions would, however, be useless if they were not supplemented by an extension of the existing facilities for legitimate borrowing. It is difficult to over-estimate the effect that a well-organised system of agricultural credit would have upon the West of Ireland. To take one example, many of the migratory labourers who go to Great Britain in search of work are landholders, whose farms would profitably respond, were capital available, to a very considerable amount of labour intelligently applied. At present the lack of capital and the inability of a small landholder to wait over a season for the reward of his industry, turns the balance in favour of migration.

Para. 818.

“ The Board at present make loans for house improvement, the erection of offices, the provision of stock, &c., and loans can be procured from the Board of Works for various purposes, though the regulations are not, perhaps, sufficiently elastic to meet the requirements of the West. There can be little doubt that small holders in the Board's area who obtain enlargements must get increased credit facilities for equipping and stocking their land if they are to make the best use of it. This need among the poor communities in the Board's area may be met in part by an extension of the co-operative banks, which the Board and the Irish Agricultural Organisation Society seem to have developed in the West with great advantage to the districts concerned.

Paras. 690-3.

“ The organisation of real as distinguished from personal credit is a more serious undertaking, but it must undoubtedly be faced, and the creation of a peasant proprietary ought to clear away one great obstacle to the establishment of Land Banks, namely, the absence of a cheap, simple, and comprehensive system of registration of title. The reports made by Mr. H. de F. Montgomery and others as to the systems existing in some foreign countries, notably in Germany, indicate the possibility of meeting the other difficulties by a judicious combination of State aid and co-operative agricultural organisation, for, amongst other things, the mutual insurance of cattle.”†

Your Committee's Report furnishes sufficient proof that we are, on the whole, in full agreement with the above-quoted views of the Royal Commission, especially in respect to the extreme desirability of gradually establishing for the aid of the smaller agriculturists of Ireland a widely-extended and well-organised co-operative credit system. Our views in regard to the desirability or otherwise of creating Land Banks, and also in regard to the usefulness of a well-devised scheme of mutual Live-Stock Insurance, especially for the smaller farmers, will be found elsewhere in our Report.

Paras. 849-856
502A-C.

CONCLUSIONS.

719. Our conclusions and recommendations in regard to the schemes of Agricultural Loans and Grants administered by the Congested Districts Board may be summarised as follows :—

(a) Mainly as a result of the operations of the Land Acts, improved communications, and the assistance given by the Congested Districts Board under its wide powers, the financial position of the small farmer in the congested areas is steadily improving. Industries subsidiary to agriculture often add materially to the family income.

Paras. 696-9.

(b) The functions of the Board in the sphere of credit are entirely secondary to their main functions of the purchase, improvement, and resale of estates. The Board cannot, therefore, to more than a very limited extent supply the credit needs of the small landholders.

Paras. 700-1.

In the year 1911-2 the total loans made amounted to £6,137 (together with £4,538 in advances repayable with Land Purchase annuities).

Paras 703-6,
716.

*In addition to loans for agricultural purposes, the Congested Districts Board advance fisheries Loans on a considerable scale. The amount thus lent in the year 1912-3 was £5,467, in 441 Loans. (*Twenty-first Report of Board, Cd. 7312, -1913, p. 42*). See also footnote, p. 330, as to Industrial Loans made by the Board.

†Cd. 4097-1908, p. 93.

Para. 705.

(c) Difficulties of title to land have limited the effectiveness of the dwelling-house erection and improvement scheme, only 66 loans, amounting to £2,720, having been made for this purpose in the year 1911-2, although there were 625 applications.

Paras. 707-13.

(d). The extensive system of free non-repayable grants through Parish Committees for the erection and improvement of dwellings and out-offices, which was started in 1897, could only be justified by the exceptional poverty of many districts, and should, in spite of undoubted benefits conferred by it, be regarded as merely a temporary expedient (as recommended by the Royal Commission on Congestion in 1908). The fact that after 17 years the sum of about £20,000 is now set apart annually—as compared with £3,600 11 years ago—proves that, instead of diminishing, this form of State aid has rapidly increased. In our opinion this popular scheme, if admitted at all, requires very careful safeguarding and limitation.

Paras. 715-8.

(e). The live-stock loan scheme of the Board (under which 175 loans, amounting to £3,417, were made in 1911-2) can meet only a small part of the need for such aid. Centralised supervision of the expenditure by borrowers has become too expensive. We fully concur in the view of the Board that loans of this nature can best be dealt with by local Credit Societies.

(c) AGRICULTURAL LOANS ADVANCED BY THE DEPARTMENT OF
AGRICULTURE AND TECHNICAL INSTRUCTION.

Amongst the most recently established systems of State action in the field of agricultural credit in Ireland is that administered by the Department of Agriculture and Technical Instruction. From the evidence given at our Inquiry by Mr. J. R. Campbell, B.Sc., the Department's Assistant Secretary in respect of Agriculture, it is clear that from the commencement of the Department's work in the year 1900, the lack of requisite capital on the part of small farmers was often found to be a considerable barrier to the successful initiation and development of the schemes for the improvement of the agricultural industry which the Department, with the aid of the County Committees of Agriculture, were endeavouring to put into operation throughout the country. More especially, we gather, was this lack of sufficient capital found to exist in the congested districts. 16461-16541

Transfer from Congested Districts Board to Department of Agriculture of certain agricultural functions in Congested Areas.

720. An important change was effected by the Land Act of 1909 which transferred to the Department of Agriculture certain agricultural functions, educational and otherwise, of the Congested Districts Board in the congested districts, bringing to an end the former undesirable overlapping of the work of two separate State Departments in the same area and in the same spheres of economic activity. The clause of the Act effecting this change provided that the powers and duties of the Congested Districts Board so far as they related to (a) the provision of seed potatoes or seed oats; (b) agricultural instruction or practical husbandry; or (c) the aiding and developing of forestry or the breeding of live stock or poultry, should be transferred to the Department*. Para. 704.

We note that several of the most widely utilised schemes of loans administered by the Department have come into operation since the above transfer; and that the greater proportion of the expenditure under these loan schemes has taken place in the congested districts.

Although the material and social conditions in the scheduled congested areas differentiate them in many important respects from the remaining portions of the country, your Committee's inquiries have unmistakably shown that outside the districts definitely scheduled as congested there are scattered widely up and down the whole country many members of the small agricultural classes whose condition in respect of the need for a well-organised system of rural credit, both of short and long-term loans; differs in no essential feature from that of the occupiers in congested districts. Para. 695.

Difficulties due to Migrants' Lack of Capital.

721. Elsewhere we have quoted evidence furnished us from County Carlow as to the inability of many small farmers in that county to make full use of the agricultural instruction available for them, this inability being attributed mainly to the lack of the necessary capital for carrying such teaching into effect. The same difficulty was referred to by Mr. Campbell who, in dealing with the condition of the new settlers in the congested districts, said:— Para. 633

"I don't think there is any case in which I can say that these migrants have been set down with sufficient capital. The assumption is that they may begin with small capital, and then gradually increase their stock. But for want of capital some of them are obliged to let their lands for grazing while others who can do so, borrow the money from the ordinary banks and buy stock. Loans to the amount of £50 would be required, the greater proportion of which could not be repaid for a number of years. 16507

"For such loans, the operations of the existing credit societies are insufficient. Some of the loans would be of doubtful benefit, unless the borrower had the use of the money for a number of years. Loans for the purchase of stock for the summer, while useful, cannot be compared in value to facilities for the purchase of milk cows, horses, or other stock, which are not to be sold at the end of the season, but are to be kept permanently, or for a number of years, on the farm. The cost per annum to the Department of the work undertaken in congested districts is about £19,000. Undoubtedly, the returns from this expenditure would be enormously increased if the newly-settled holders were in a position to borrow money easily and cheaply, to carry out the improvements and purchases recommended by the instructors."

SUMMARY OF AGRICULTURAL LOANS ADVANCED BY DEPARTMENT.

722. We insert here a Statement showing the extent to which the Department of Agriculture have advanced agricultural loans to farmers, and the expenditure under each class of loan from 1901 to 31st March, 1913 :—

Nature of loan.	Number of Loans	Amount	Average Loan.
		£	£
Loans for purchase of bulls ...	1,864	46,108	25
Loans for purchase of stallions ...	207	21,014	101
Loans for purchase of agricultural implements.	399	4,316	11
Loans for the erection of fencing ...	518	8,990	17
Loans for the erection and equipment of scutch mills for flax.	5	740	148
Loans for the erection of pasteurising plant in Creameries.	26	4,840	186
Loans for the erection of Village Halls.	10	2,476	247
Loans to Agricultural Credit Societies.	233	18,292	78
Totals	3,262	£106,776	—

In addition to the above, schemes for the advance of loans for fruit-growing purposes ; for the repair and equipment of meal mills, kilns for drying, &c. ; and for the erection of small hay-barns, have also been established by the Department. Loans amounting to about £500 have been advanced since March, 1913, in connection with the fruit growing scheme ; while the scheme of loans for the purchase of agricultural implements, under which £1,772 was advanced in the year ended March, 1913, has greatly developed, advances amounting to approximately £6,000 having been made to farmers since that date.*

There will be found printed in the Appendices the full text of the Regulations governing these various loan schemes.† We propose here briefly to deal with the leading features of each, and to make any suggestions in regard thereto which may seem called for.

LOANS FOR THE PURCHASE OF LIVE STOCK.

723. The schemes of loans to aid farmers in the improvement of the live stock industry‡ of the country are, to some extent, differentiated from most of the lending schemes of the Department in that their main object is not so much the improvement of the particular circumstances of the individual borrower, as the introduction of pure-bred animals for the benefit of the surrounding locality. Up to March, 1913, 2,071 of these loans had been advanced, amounting to a total of over £67,000, of which almost £54,000 had been repaid at that date. The average number of these loans made per annum has been 172, but the annual number has considerably increased in recent years ; the number of loans made in the year 1910—11, for instance, was 263, totalling over £8,700.

Since the year 1906 the Department have referred to the Chief Crown Solicitor for the collection of instalments 84 cases of borrowers under the Cattle-breeding scheme, an annual average of 12 ; and 23 cases under the Horse-breeding scheme, an annual average of 2. We are not aware of the number of cases, if any, in which it was found necessary to bring the borrower into court.

Under both these schemes the applicant for a loan is required to furnish to the Department (1) one-third of the approved purchase price ; (2) the necessary stamp duty ; (3) the premium for insurance ; and (4) a form of undertaking to have the necessary bond for repayment duly signed and completed. The Department require as security a form of guarantee from the applicants and from two or more approved solvent sureties for the repayment of the advance made of two-thirds of the purchase money. In the case of bulls the repayment is in two equal annual instalments, with interest at the rate of 2½ per cent., while in the case of horses repayment is by five equal annual instalments, at the same rate of interest. Under each scheme the applicant must insure the animal with the Department, against death only, for the full amount of the purchase price, the fee for such insurance being 5 per cent. per annum on the price.§

* In addition, the sum of £64,000 was advanced by the Department in loans to fishermen during the period 1900—1913.

† Appendix 12 to Minutes of Evidence.

‡ *Ibid.* pp. 531-2.

§ We deal in another Section with the important question of live stock insurance in relation to agricultural credit. See paras. 502 A—C.

In some cases, doubtless, the larger farmers who are glad to make use of the credit facilities furnished by these schemes would have been able from their own resources to pay cash for the animals purchased. But to many small farmers this form of agricultural credit must prove extremely useful; for without such means of obtaining a loan on comparatively easy terms, they frequently could not afford to obtain sires of superior quality for their own use and that of their neighbours.

Farmers selected by Co. Committees of Agriculture for live-stock loans.

724. Mr. J. R. Campbell, in his evidence regarding these loans, said :—

“ The selection of the persons to keep such animals is made by County Committees, with due regard to the needs of the districts requiring sires of this class. In making such selections, the Committees have regard more to the suitability of the applicants who wish to keep the animals, than to their financial position. With this method of selection the Department can find no fault, but it makes the granting of loans a necessity. . . . Persons selected to keep these animals, even when in a position to pay cash, usually prefer to buy on the loan system. . . . Many of the persons who avail themselves of these loans might ordinarily be expected to find the money themselves, but a large proportion of them cannot do so. There is no doubt that the simplicity of our loan system, and the low rate of interest charged, account for the fact that many persons who might be able to do without them take up these loans from us. As there is practically never any loss, we do not now distinguish very much between the rich man and the poor man. . . . Generally it is the smaller people who come, but we do not confine the loans to people of small means. I do not want to convey the idea that these loans have been given to people because they absolutely need them, but, undoubtedly, the greater proportion of the people need them.” 16468-78.

The fact that one-third of the purchase price must be paid by the farmer to the Department before he receives the possession of the animal under these schemes naturally shuts out from their operation the smaller agriculturists who are not in a position to make such payment. But this result seems advantageous rather than otherwise, for it is probable that a farmer so poorly off as not to be able to comply with this regulation would not, as a rule, be a suitable person to entrust with the care of valuable animals, or one who could provide proper accommodation or incur the other necessary expenditure.

LOANS FOR FENCING.

725. The Department's scheme of loans to farmers for the erection of wire fencing* is confined to counties containing congested districts, and has been in operation for over six years. The following figures show that there is a steadily growing demand for these loans.

Year.	Number of Loans.	Amount Advanced.
		£
1907—8 ...	42	960
1908—9 ...	64	903
1909—10 ...	62	1,079
1910—11 ...	70	1,244
1911—12 ...	110	2,054
1912—13 ...	170	2,750
Totals ...	518	£8,990

The average loan made for fencing was, therefore, about £17. Of these advances, £2,419 had been repaid to the Department by 31st March, 1913.

Conditions upon which loans for fencing are made.

726. The Regulations state that these fencing loans are “ not intended for occupiers who can afford, or may reasonably be expected to pay cash for the required fencing, nor for cases in which, having regard to the position of the occupier and the extent of the proposed fencing, application for a loan should be made to the Board of Works. The object of these loans is to encourage small occupiers to fence in their arable land or to fence off mountain grazing so as to permit of arable land being properly cropped and laid down with grass and clover seeds.”

No application for a fencing loan is considered unless the Department are satisfied that the applicant is a person of very small means, nor is any loan advanced, save in exceptional circumstances, to any farmer whose gross Poor Law Valuation exceeds £20. No loan for a larger amount than £35 or a smaller sum than £5 is granted; and when a loan

* See Appendix 12 to Minutes of Evidence, pp. 532-3.

is made to two or more persons, it must not exceed £35 for each person. Loans are granted for the purpose of erecting wire fencing (a) for the boundary fence of a holding ; (b) for separating arable land from mountain grazing or similar rough pasture ; and (c) for the internal fencing on the farms of applicants where wire fencing is most suitable.

Loans of £5 up to £15 are repayable in five years, while loans from £15 to £35 in amount are payable within ten years. The borrower must supply a form of guarantee signed by himself and two approved solvent sureties, agreeing to repay the money in equal half-yearly instalments, with interest at 3 per cent. In the case of joint loans to two or more persons, a joint and several bond is required. The borrower is at liberty to repay the outstanding balance with interest at any time. A useful privilege attached to this loan scheme is the supplying by the Department of the services of a foreman to superintend for a limited period the erection of the fencing. The farmer must provide at his own expense such other labour as may be required.

In speaking of this scheme, Mr. J. R. Campbell said :—“ The popularity of these loans is largely due to the fact that the Department order the material in bulk (thereby obtaining it at much reduced prices), deliver the fencing, and supervise its erection without any charge. These loans would be no use to the farmers unless they were for quite a number of years.”

Before the transfer of certain agricultural functions in the congested districts to the Department of Agriculture, the Congested Districts Board had in operation a loan scheme for the erection of wire fences in mountainous districts. Under this scheme a total of 154 loans, amounting to £1,868, were made. The operation of the Land Purchase Acts in the congested areas will doubtless lead to a considerable further increase in the extent to which the Department’s fencing loan scheme is availed of.

LOANS FOR THE PURCHASE OF AGRICULTURAL IMPLEMENTS.

727. The Department’s scheme of loans for the purchase of agricultural implements* has been in regular operation for the past seven years. The following figures show the extent to which these loans have been issued :—

Year.	Number of Loans.	Amount Advanced.
		£
1903—4 ...	38	315
1907—8 ...	26	287
1908—9 ...	104	935
1909—10 ...	40	331
1910—11 ...	38	316
1911—12 ...	42	360
1912—13 ...	111	1,772
Totals ...	399	£4,316

The average loan was therefore almost £11. Of the above amount, £2,252 had been repaid to the Department by 31st March, 1913. It will be observed that in the year 1912—13 there was a very large increase in the amount advanced by the Department, the total being almost five times that lent in the previous year. We have ascertained that the figures for the current year (1913—14) are likely to show a very large further increase, loans amounting approximately to £6,000 having been advanced by the Department since March, 1913, under this scheme.

Conditions regulating loans for Agricultural Implements.

728. The conditions of the scheme state that loans will be made by the Department to *bona-fide* farmers of small means, who could not reasonably be expected to pay cash for the purchase of farm implements and machinery, including horse sprayers, thistle cutters, potato diggers, mowers, binders, small threshing machines, sprayers, &c. Intending borrowers are advised to consult the County Agricultural Instructor as to the pattern of machine most suitable for their requirements. No loan is given for a machine or machines costing less than £6, while the price and pattern must be approved by the Department. The borrower must lodge with the Department one-fourth of the purchase price, together with stamp duty, and must supply two or more solvent sureties, who, with himself, will

* See Appendix 12 to Minutes of Evidence, p. 533.

furnish the Department with a guarantee for the repayment of the amount advanced, in equal annual instalments, with interest at 3 per cent. A loan not exceeding £50 must be repaid in three years, while a loan above £50 is repayable in five years. The machine is ordered by the Department, who pay the vendor the approved price, after delivery of the machine has been notified by the applicant.

There is no doubt that in the Western districts especially the need for these loans is very considerable. As pointed out by Mr. Campbell, "none of these small men can really afford to buy threshing machines, and without a threshing machine they cannot well grow corn." Previously to the year 1911-12 various separate schemes for the purchase of agricultural machines and implements were in operation under the Department, but in that year they were combined into the above scheme, extended so as to include practically every kind of agricultural machine. We note that under this scheme the Department are willing to lend a sum of £50 to a small farmer on personal security, without requiring a charge upon his holding. Although mainly taken advantage of in the congested areas, the scheme can be availed of by small farmers of limited means in any portion of the country.

LOANS FOR THE ERECTION OF SMALL IRON HAY BARNs.

729. The Department's scheme of loans for the erection of hay barns* costing under £35, has only recently come into operation. In dealing with the corresponding scheme administered by the Commissioners of Public Works we have gone fully into the conditions and scope of both schemes, and need not, therefore, further refer to the subject here.

Paras. 675-6.

LOANS FOR THE REPAIR AND EQUIPMENT OF SCUTCH MILLS.

730. Under the Department's loan scheme for the repair and equipment of scutch mills, five loans were granted, amounting to a total of £740, during the five years ended March, 1913, of which £204 had been repaid at that date. We have referred briefly to some aspects of this loan scheme when dealing with the Board of Works' loans for a similar purpose.

Paras. 684-5.

LOANS FOR THE REPAIR AND EQUIPMENT OF MEAL MILLS. KILNS FOR DRYING, &c.

731. Only three loans, amounting to £274, have so far been granted under this scheme.† The conditions state that the loan is to aid in the repair of existing mills, &c., or the adaptation of existing buildings to be used as mills. Not more than two-thirds of the approved cost is advanced, and all plans and estimates must receive the Department's approval. The Department require, in addition to the usual personal security of the borrower and solvent sureties—with which they are satisfied in the majority of their agricultural loan schemes—a first charge on the building, machinery and equipment to the amount of the advance.‡ The loan is to be repayable in not more than ten years in annual instalments, with interest at the rate of 3 per cent. During the period of the loan the buildings, machinery and equipment must be kept in proper repair, and adequately insured by the applicant at his own expense.

Limited operation of Scheme of loans for meal mills.

732. In speaking of this scheme, Mr. J. R. Campbell said: "In a few of the districts in which the Department are encouraging the production of wheat and other cereals for home consumption, mills for the grinding of corn are no longer available. The Department, accordingly, grant loans for two-thirds of the approved cost of repairing existing mills, or for their more up-to-date equipment. . . . These negotiations about mills take a long time. We have a great number of applications on the file, but there is usually some one in the district who objects, or there is some trouble about the water supply. Quite a variety of things keep back these loans, but they are available."

16490-1.

If the much hoped-for revival of tillage were to take place in Ireland on a considerable scale, there is every probability of some of the many disused corn mills which are to be found scattered throughout the country being again brought into use. The fact that the Department have received a large number of applications for these loans seems to be a sign of a revival of activity in the direction of restarting these mills. Your Committee hope that it may be found possible satisfactorily to overcome the difficulties referred to by Mr. Campbell. When dealing with the subject of shopkeepers' credit, we have emphasised the desirability of farmers growing upon their own land a much greater proportion of the food for household consumption and of various feeding stuffs which they now purchase. This much-needed improvement in the present rural economy of Ireland

Paras. 181-2.

* See Appendix 12 to Minutes of Evidence, p. 534.

† *Ibid.*, pp. 535-6.

‡ We understand that in a revision of this scheme it is proposed to make this condition applicable only in exceptional cases.

Para. 684.

would also result in an increasing demand for the services of local corn mills. The Board of Works, it may be added, are not in a position to assist in the erection of corn mills by the advance of loans, their powers in this particular direction being limited to scutch mills.

LOANS FOR THE ERECTION OF PASTEURISING PLANT IN CREAMERIES.

733. During the earlier years of the Department—from 1901 to 1905—26 loans, amounting to a total of £4,840, were advanced to Co-operative Dairy Societies for the purpose of erecting pasteurising plant. These loans were made repayable in ten half-yearly instalments, with interest at the rate of 3 per cent. The conditions laid down that repayment should be secured either by a charge on the entire building and plant of the creamery, or by the collective bond of the owners of the creamery, or by such other security as the Department might consider necessary. The security required by the Department in most cases was, we understand, a collective bond signed by ten persons. Of the sum advanced £4,334 has been repaid, the remainder, amounting with interest to £547, having been written off by the Department as irrecoverable. This scheme has not been in operation since the year 1905.

LOANS FOR THE PURPOSE OF FRUIT-GROWING.

734. The Department's scheme of advances to farmers for the purpose of encouraging fruit-growing* in Ireland has been in operation for a comparatively short time. Loans amounting to between £400 and £500 have been made in connection therewith. These loans are advanced to members of associations of fruit-growers who are rated occupiers, and who are willing to be liable jointly and severally for the repayment of the loan.

The main object of the scheme is to encourage associations of occupiers of land in suitable localities to grow fruit, particularly apples, as a farm crop for sale. Persons desiring to grow small quantities of fruit, mainly for use in their own homes, are ineligible for assistance. Loans may be advanced to members of an association of fruit-growers, not less than ten in number, in the same locality. At least three members must participate in the loan, and each such member must agree to plant not less than one statute acre, approximately, with fruit trees. Those participating in the loan must enter into a joint and several bond for its repayment, with interest at the rate of 3 per cent., repayable in ten annual instalments. No loan is granted for a sum less than £20, and it must be expended wholly in the purchase of fruit trees, save where the Department allow portion of it to be spent upon fencing materials, or upon the erection of stores for fruit. No part of it may be applied in defraying the cost of labour.

Although the scheme is intended mainly for members of fruit-growing associations, the Department would consent to advance a loan to an individual farmer desirous of growing fruit on an extensive scale for market, in districts where associations of fruit growers cannot be established. Such farmer must plant at least three acres, and no loan is given for a less sum than £10. Two approved sureties must be furnished for such loan.

Extension of fruit-growing loan scheme hindered by reluctance of farmers to incur joint and several liability.

735. It is possible that a special feature of this scheme, *i.e.*, the joint and several liability of each member of the association for the repayment of the whole loan, may in some districts act as a considerable deterrent to farmers who might otherwise be desirous of taking advantage of the credit facilities thus afforded. A witness who has taken an interest in the promotion of fruit growing in his neighbourhood, Mr. Henry Byrne, J.P., of Moneymore, County Derry, stated in his evidence :

15927.

"These loans are offered by the Department at 3 per cent., and when I saw the offer of the Department at first I thought it would take on in our district at once. This is a splendid opportunity." I said, 'for men wanting to plant fruit trees,' but when I went to the farmers I found the same objection applied as in the case of the Raiffeisen Banks. There would be at least ten men required to form a society, and each would be equally responsible for any loan got from the Department. They say: 'I would prefer to go into the Joint Stock Bank to borrow money and have two neighbours with me, rather than run the risk of being liable for the debts of others who might fail.' The difference in the rate of interest and in the terms, they do not consider sufficient to warrant them in availing of the Department's loan.

Q. "Do you think if the amount of liability were limited in each case it would work better?—A. Yes.

Q. "It would not be as good security for the money?—A. Nearly every farmer in my district has bought out as a rule, and the holdings ought to be security."

Para. 688

If experience should prove the existence of a widespread reluctance on the part of farmers to make use on the present terms of these advances for fruit-growing, the Department should, we believe, consider the desirability of requiring some other form of security, which would probably be found equally safe.†

* See Appendix 12 to Minutes of Evidence, pp. 534-5.

† This unwillingness of farmers to undertake joint and several liability for loans to fruit-growing associations affords confirmation of some of the conclusions to be found in the section of our Report dealing with the question of unlimited liability in Agricultural Credit Societies. (See paras. 333-4.)

LOANS FOR THE ERECTION OF VILLAGE HALLS.

736. Under the Department's scheme of loans for the erection of Village Halls,* ten advances were made up to March, 1913, the total sum lent amounting to £2,476, or an average of £247 per loan. Of this amount, £772 had been repaid by the date mentioned. These loans are granted by the Department mainly that there may be suitable rooms in rural districts in which lectures can be delivered on agricultural subjects. The amount advanced does not exceed two-thirds of the approved cost, the balance being raised locally by private subscriptions or otherwise. The building and equipment must be vested in a Committee of trustees consisting of solvent ratepayers resident in the district, and must be held by them for public purposes, *i.e.*, for the promotion of "the purposes of agriculture and rural industries as defined by the Agriculture and Technical Instruction (Ireland) Act, 1899." The trustees must also make provision for the permanent and proper upkeep and insurance of the building and equipment. The Department's loan is charged on the land and building, and is repayable in not more than ten annual instalments, with interest at $2\frac{1}{2}$ per cent.

These Village Halls frequently serve a very useful purpose. With the consent of the trustees they may be used for entertainments, or any other approved object, and will thus, in addition to providing a convenient centre for agricultural educational purposes, assist in supplying much needed opportunities of brightening village life. This loan scheme, however, has little direct bearing upon the subject matter of our Inquiry, and we include this brief reference to it merely to make our survey of the Department's agricultural loan schemes complete.

Para. 191A

ADVANCES TO AGRICULTURAL CREDIT SOCIETIES.

736A. The advances made by the Department to Agricultural Co-operative Credit Societies,† for the purpose of providing a portion of the lending capital of these bodies, have been on a considerable scale. In all 233 such loans have been made (including Seed loans to members) to 170 Societies, the total amount lent being £18,292 to 31st March, 1913. Of this amount, £11,341 had been repaid by that date, while the sum of £151 has been written off as irrecoverable. We have devoted a special section of our Report to a careful consideration of this form of State loan for the development of agriculture, and need not, therefore, further refer to the subject here. The scheme, we understand, has been for some time in abeyance, pending the consideration by your Committee of the whole subject of agricultural credit in Ireland.

Para. 559

Paras. 545-98

It will be observed that none of the lending schemes of the Board of Works or of the Department of Agriculture make provision for supplying one of the most important forms of agricultural credit required by the small farmers of Ireland, *i.e.*, advances for the purpose of stocking their holdings. In one special case (at Castlereagh), the Department of Agriculture made an advance through the agency of a specially formed Credit Society, to a number of new holders for this object. Assistance of this nature is given, either by free grant or loan, in certain instances by the Estates Commissioners and by the Congested Districts Board to re-instated evicted tenants, migrants, and in other exceptional cases. We have stated elsewhere our reasons for believing that loans for this purpose can best be dealt with through the agency of Credit Societies.

Paras. 715-7.
742-7

Para. 718

Proposed Agricultural Credit Section of Department of Agriculture.

737. The fact that the Department administer numerous loan schemes for agricultural purposes makes it desirable, in our opinion, that these various lending operations should be co-ordinated in a special Agricultural Credit Section which should also have the supervision of the re-organised Loan Fund system outlined by us, and of the revised scheme of Co-operative Credit.

Paras. 272-6
642-4.

We give on the following page a Table showing in a convenient form the nature and extent of the operations of the Department in agricultural loans since its establishment.

* See Appendix 12 to Minutes of Evidence, pp. 533-4.

† See Table on p. 240.

SUMMARY showing the NUMBER and AMOUNT of LOANS ADVANCED for AGRICULTURAL PURPOSES by the DEPARTMENT OF AGRICULTURE AND TECHNICAL INSTRUCTION FOR IRELAND during the YEARS 1901-02 to 1912-13.

YEAR.	Loans for the Purchase of Bulls.		Loans for the Purchase of Stallions.		Loans for the Erection of Fencing.		Loans for the Purchase of Agricultural Implements.		Loans for the Erection of Village Halls.		Loans for the Erection of Pastourising Plant in Creameries.		Loans for the Erection and Equipping of Scotch Mills.		Loans to Agricultural Societies (including Seed Loans to Members).		TOTAL LOANS ADVANCED.	
	No. of Loans.	Amount advanced. £	No. of Loans.	Amount advanced. £	No. of Loans.	Amount advanced. £	No. of Loans.	Amount advanced. £	No. of Loans.	Amount advanced. £	No. of Loans.	Amount advanced. £	No. of Loans.	Amount advanced. £	No. of Loans.	Amount advanced. £	No. of Loans.	Amount advanced. £
1901-02 ...	54	1,226	8	847	-	-	-	-	-	-	11	2,070	-	-	25	2,100	98	6,243
1902-03 ...	89	1,945	11	1,513	-	-	-	-	-	-	11	1,970	-	-	52	3,330	163	8,758
1903-04 ...	104	2,563	13	2,216	-	-	38	315	-	-	3	550	-	-	36	2,725	194	8,369
1904-05 ...	127	2,906	13	1,860	-	-	-	-	2	200	1	250	-	-	25	1,370	168	6,586
1905-06 ...	155	3,911	8	1,340	-	-	-	-	-	-	-	-	-	-	16	825	179	6,076
1906-07 ...	132	3,390	5	407	-	-	-	-	1	770	-	-	-	-	14	865	152	5,492
1907-08 ...	194	5,004	16	1,294	42	960	26	287	1	480	-	-	-	-	36	4,573	315	12,598
1908-09 ...	201	4,969	37	2,849	64	903	104	935	-	-	-	-	2	240	17	1,468	425	11,364
1909-10 ...	180	4,495	22	1,811	62	1,079	40	331	1	210	-	-	-	-	7	625	312	8,551
1910-11 ...	231	5,812	32	2,939	70	1,244	38	316	2	300	-	-	-	-	1	130	374	10,741
1911-12 ...	188	4,602	21	1,888	110	2,054	42	360	2	450	-	-	2	400	3	181	368	9,935
1912-13 ...	209	5,285	21	1,990	170	2,750	111	1,772*	1	66	-	-	1	100	1	100	514	12,063
Totals ...	1,864	£46,108	207	£21,014	518	£8,990	399	£4,316	10	£2,476	26	£4,840	5	£740	233	£18,292	3,262	£106,776†
Total Amount Repaid.		£38,764		£15,083		£2,419		£2,252		£772		£4,334		£204		£11,341		£75,169

* This Agricultural Implements Scheme was recently considerably extended, loans amounting approximately to £6,000 having been advanced since March, 1913.
† In addition to the above schemes, the Department have also established schemes of loans for the purposes of fruit growing, for the repair and equipment of meal mills, drying kilns, etc., and for the erection of small iron hay barns. Loans amounting to £64,000 have, in addition, been advanced to fishermen by the Department.

CONCLUSIONS.

738. The following are our main conclusions and recommendations in regard to the agricultural loan schemes of the Department of Agriculture :—

(a) Since its establishment, the Department has engaged on a considerable scale in the making of loans for the assistance of farmers. The sum of £107,000 had been thus lent up to March, 1913, and some of the schemes have largely increased in extent since that date, notably the scheme of loans for agricultural implements. These useful facilities are most widely availed of in the congested districts. Para 722.

(b) The repayment of the advances has been, on the whole, very satisfactory. In the case of few loans does the Department require a charge upon the holding or building, but relies mainly upon personal security; this obviates the expenses and delays attached to proof of title to land. The schemes which have made best progress are those in which mortgage security is not required.

(c) The fruit-growing loan scheme seems to have made little progress owing mainly to the condition that a joint and several bond from the association of farmers seeking a loan is required. This condition should, we think, be materially relaxed. Paras. 734-5.

(d) It is regrettable that in spite of many applications for loans for the repair and equipment of meal mills, few loans of this desirable sort should have been arranged for. Difficulties of mortgage security have been one cause, and also disputes as to water-supply. Paras. 731-2.

Various loan schemes of the Department, such as those of advances to Credit Societies, the hay-barn and scutch-mill loan schemes, &c., have been more conveniently dealt with in other sections of our Report. Paras. 555-65, 675-6, 685.

(e) The fact that the Department is engaged in administering agricultural credit schemes of various sorts makes it desirable, we think, that all its existing loan operations should be co-ordinated in a special Agricultural Credit Section which should, in addition, have the supervision of the re-organised Loan Fund system outlined in our Report, and of the revised scheme of Co-operative Credit proposed by us. Paras. 272-3, 642-4, 737.

(d.) EXPENDITURE BY ESTATES COMMISSIONERS ON THE IMPROVEMENT
AND STOCKING OF HOLDINGS.

Para. 5.

The importance of the functions of the Estates Commissioners in relation to the development of Irish agriculture could hardly be over-estimated. The great legislative measures of Land Purchase, under which the fee-simple of the soil is steadily passing by means of State credit into the hands of a peasant proprietary, have laid the foundation upon which may be gradually built up a sound and prosperous rural economy, with the assistance of the various voluntary and State organisations at work in their respective spheres. The evidence received by us has been unanimous upon one point—the great improvement usually wrought in the condition and whole outlook upon life of those farmers who have obtained the complete ownership of their holdings, as compared with those who are still in the position of tenants. The former class are, for easily understood reasons, much more likely to turn to the best advantage any safe system of agricultural credit which may be placed within their reach. We have indicated in the opening of our Report our opinion that the present time, owing to the far-reaching effects of the Purchase Acts upon the rural conditions of Ireland, is one in which the position of the new owners, in respect of the capital and credit requisite both for long-term improvement purposes and for current farming expenditure, calls for the most careful consideration.

Problem of Credit for Purchase of Land largely solved in Ireland by Land Purchase Acts.

739. In this connection we may observe that our task in investigating the subject matter of our Inquiry has been very materially lightened by one outstanding factor in the situation, viz., that in Ireland the important branch of rural credit which concerns itself with advances to agriculturists for the purchase of land could be almost entirely eliminated from our consideration, thus strikingly differentiating this country from others where this difficult and fundamental question necessarily occupies a prominent place. The machinery now at work for the transfer of the land to tenant-purchasers is unable—mainly from the very success of the scheme—to operate as quickly as the eagerness of the purchasing tenants would desire; but the statistics of sales under the Irish Land Purchase Acts reveal the gigantic scale of the work already accomplished.

Thus by 31st March, 1913, proceedings had been instituted under the Land Purchase Acts for the sale of lands of an estimated Purchase Money of over 121 millions, of which sum almost 82½ millions had been advanced; 1½ millions had been provided in cash by the purchasing tenants, leaving on that date lands of an estimated Purchase Money of about 37 millions pending for sale. During the year ending 31st March, 1913, almost eight millions had been advanced under these Acts.*

For the reasons above indicated, we propose to deal only with the expenditure of the Estates Commissioners for the improvement of estates, e.g., upon the erection of farm buildings, upon drainage, fencing, reclamation, &c. (similar to the objects of the Land Loans of the Board of Works), and upon the supplying of stock, seeds, implements and manure. It is obvious that such expenditure has a very direct bearing upon the question as to whether further facilities for obtaining capital and credit are needed for the benefit of these new holders, to enable them to make the most of their land.

Powers of Estates Commissioners in connection with land improvement, &c.

740. The Estates Commissioners were enabled under Sections 12 and 43 of the *Irish Land Act, 1903*, to expend money for the improvement of estates or untenanted land purchased or proposed to be purchased under that Act. Where such expenditure on improvements (as on buildings, fencing or drainage) resulted in an enhanced price, the Commissioners were empowered, where they thought fit, to recover the money so spent by increasing the

**Return of Proceedings under Land Purchase Acts to 31st March, 1913*, [Cd. 6930-1913], and *Annual Reports of Irish Land Commission and Estates Commissioners for 1912-3*.

resale price of the land affected. The latter power, which was in the first instance limited to estates purchased by the Estates Commissioners, was extended by the *Evicted Tenants Act, 1907* (Sec. 17), to lands sold to a reinstated evicted tenant by the owner of the estate ; and was further extended by the *Irish Land Act, 1909* (Sec. 30), to lands sold by landlords to tenants through the Estates Commissioners.

Your Committee understand that it has been held that the Estates Commissioners have power under these Sections to sanction expenditure not only on works of improvement such as buildings, &c., but also upon the purchase of live stock, seeds and implements ; but that in the case of the latter class of expenditure, *i.e.*, for purposes other than those of permanent improvement, the Commissioners have no power to recover by means of a Land Purchase annuity any portion of the money so expended. Practically all the expenditure of the Estates Commissioners under these Sections is on estates purchased by them for the purposes of resale. These estates, as a rule, require re-arrangement and improvement of existing holdings, and also the division of untenanted land into new holdings. These new holdings have necessarily to be equipped with houses, fences, roads, &c., while the allottees, who include evicted tenants, migrants who have surrendered their holdings for the relief of congestion, labourers, and occupiers of small holdings in the neighbourhood, are, if the circumstances require, provided with stock and implements to work their land.

Procedure regulating making of recoverable Advances and non-repayable Grants.

741. So much of the expenditure on works of improvement as in the opinion of the Commissioners can be recovered, having regard to the security for the payment of the Land Purchase Annuities, is included in the price of the holding so improved ; and the balance is treated as a grant not repayable. Where there are general estate improvements carried out, such as roads, bridges, deepening of streams, &c., the expenditure (or such part of it as the Commissioners consider can be added to the purchase money) is apportioned, where practicable, amongst the holdings benefited, and is similarly repaid in the Land Purchase Annuities. As regards the money expended on improvements but not made repayable in the Land Purchase Annuities, it is, we understand, the practice of the Commissioners to require the purchaser to execute a deed charging the holding with the repayment of the money in the event of his not working the holding in a husbandlike manner, or parting with its possession within five years without the consent of the Commissioners. The enforcement of this condition has been found necessary in a comparatively small number of cases.

J. T. Drennan,
1544-5.

The expenditure of the Commissioners* on the improvement of estates is made once and for all on the occasion of the sale ; once the holdings have been vested in the tenant purchasers, any further financial assistance which may be required for such purposes must be obtained elsewhere by the purchasers.

Financial position of Reinstated Evicted Tenants.

742. The *Irish Land Act, 1903*, and the *Evicted Tenants Acts, 1907-8*, provided facilities for the reinstatement of evicted tenants. Where their former holdings were not available, the Estates Commissioners were empowered to provide them with new holdings on untenanted land acquired under these Acts. These evicted tenants were, as can be readily understood, for the most part men without means, so that on their reinstatement in their former holdings, or on their being provided with a parcel of untenanted land, a larger expenditure was inevitably necessary properly to equip the lands than in the case of other purchasers. The *Evicted Tenants Act, 1907*, provided that " No farming stock or other chattels provided for an evicted tenant by means of a grant or loan under the Act of 1903 shall be made available in any bankruptcy, or by any other process or proceeding of law, to pay, satisfy, or discharge, in whole or in part, any debt contracted or incurred by such evicted tenant prior to the date on which the parcel of land purchased by him became vested in him." This provision aims at giving the evicted tenant a fresh start in life, but does not preclude seizure of his stock or chattels for any debts which he may incur subsequent to the vesting of the land in him.

*To meet the expenditure of the Commissioners on the improvement of estates and untenanted land, a Reserve Fund, amounting to about £250,000, was by Section 43 of the Act of 1903 made available. Since it became exhausted in May, 1910, the money, up to an amount annually approved of by the Treasury, is obtained out of Moneys provided by Parliament, pursuant to Section 28 of the Act of 1909.

Details of repayable advances and of free grants.

743. The expenditure sanctioned by the Estates Commissioners for the improvement of estates, the reinstatement of evicted tenants, &c., in the period from the 1st November, 1903 (the date on which the Act of 1903 came into operation) to the 31st March, 1913, amounted to £567,489, of which sum £247,029 is included in the purchase money of the land sold and is repayable by means of the Land Purchase Annuities; while the balance of £320,460 was sanctioned by way of free grant not repayable. The particulars of this expenditure are set out as follows in the Report* of the Estates Commissioners:—

	Advances repayable as part of Tenants' Purchase Annuities.	Free Grants not repayable.
	£	£
Building and repair of houses ..	159,365	131,291
Drainage, fencing and amalgamation of holdings and parcels.	35,044	10,915
Improvement works generally ...	48,657	25,599
Stock, seeds, implements and manure	—	135,281
Other expenditure under Section 12 of the Irish Land Act, 1903, and Section 5 (1) of the Evicted Tenants Act, 1907.	3,963	17,374
	£247,029	£320,460
TOTAL ..	£567,489	

Of this expenditure, the reinstatement of Evicted Tenants accounted for £340,318, viz.: £102,829 repayable in the Land Purchase Annuities, and £237,489 as Free Grants not repayable. Deducting this amount from the total sum sanctioned, it will be seen that the expenditure of the Commissioners on the benefit and improvement of estates and untenanted Land, (exclusive of expenditure on the reinstatement of evicted tenants) was, during the period referred to, £227,171, of which £144,200 is repayable in the Land Purchase Annuities, £82,971 being free grants. Of the total sum of £567,489, over £83,000 was sanctioned during the year ended 31st March, 1913 (£47,000 in repayable advances, and £36,000 in free grants). The actual expenditure during the year was £63,322.

Evidence of the late Mr. M. F. Hogan as to successes and failures among new holders.

744. Your Committee attach much weight to the valuable and suggestive evidence furnished to them by the late Mr. M. F. Hogan, Chief Inspector to the Estates Commissioners, whose deeply regretted death has deprived the Commissioners of the services of an experienced and skilful officer. His evidence dealt mainly with a particular district, embracing most of the County Galway, where the Estates Commissioners have carried on extensive operations; but this area may be taken as fairly typical of other districts where the land is fairly good and migrants possessing sufficient means to work an economic holding are easily found. Mr. Hogan estimated that out of a total of 989 tenant-purchasers in the district who were provided with land, 95 per cent were stocking, or partly stocking, and working their holdings, while 5 per cent. were letting their land. To some extent adverse circumstances, such as loss of stock, sickness, &c., might account for the action taken by the 5 per cent. Of these purchasers, 59 were evicted tenants, 128 migrants, and 56 sons of tenants, while 711 cases were enlargements of holdings. The percentage of failures amongst these occupiers was as follows: evicted tenants, 12½, migrants, 4, sons of tenants, none. Mr. Hogan stated:—

“ Amongst three classes of persons who got new holdings, the largest proportion of what I have called failures is amongst the evicted tenants; the next amongst the migrants; whereas there are no failures amongst the sons of tenants. I might say that only a very small number of the latter class get holdings—practically none under the Act of 1909. The largest grants were given to the evicted tenants, while as per holding the sons of tenants have sunk at least five times as much capital on improvements on their holdings as either of the other classes, and from an economic point of view are the best of the lot.”

* Cd. 7145—1913, p. XVIII.

Success in Farming a question rather of Character than of Capital.

745. It is instructive to note that, according to Mr. Hogan, the "Plan of Campaign" tenants are the most successful of the reinstated evicted tenants. The causes given for this superiority contain much that is of special relevance to the subject of our Inquiry, and furnish confirmation of the fact that capacity and character are more essential factors in the building up of a progressive agriculture than credit and capital, necessary as these latter are.

"Taken as a whole they (the Plan of Campaign tenants) are doing wonderfully well. . . . They were not failures. They had some capital when they were put out. They held the grip. . . . Of the isolated tenants who were evicted here and there through the country, those who stuck to some land are doing well, but of those who drifted to the towns many were never industrious, and history will repeat itself in their case."

6994-7000.

Disappointing results in a number of cases of re-instated Evicted Tenants.

746. In regard to the reinstated evicted tenants in County Dublin, Mr. Hogan stated :—

"There are four estates in the County Dublin on which 28 evicted tenants were planted, mostly from the City of Dublin. The area of the holding given to them varied from 20 to 60 statute acres each. In almost all cases houses were built, and free grants of £100 each for stock were provided by the Commissioners. On one of these estates seven evicted tenants were planted. They are all, with one exception, letting the land on the eleven months' system, and there is not an acre of the lands under cultivation, except in one case. Taking the four estates in question together, half of them are letting their lands, and several of them have never gone into occupation of the houses built for them by the Commissioners. These people do not appear to be deserving of further credit. They got larger holdings and larger grants than the average given to evicted tenants. It does not appear to have benefited them very much and they do not appear to be entitled to further credit.

"I think the inference to be drawn here is that large grants easily obtained do not necessarily make for success. An Act of Parliament may qualify a man for land, but an Act of Parliament cannot make him industrious. You can devise means to give him a loan, but I am doubtful if you can make him use it to advantage."

The Annual Report* of the Estates Commissioners for the year ended March, 1912, expresses the regret of the Commissioners "that in a number of cases in which Evicted Tenants have been provided with holdings and money has been expended on equipping the lands with buildings and on the purchase of live-stock, the Evicted Tenants have failed to work the lands in a husband-like manner, and have either meadowed them or let them for grazing, and in some cases have not resided in the houses erected on the lands, and the Commissioners have under consideration the institution of legal proceedings for the recovery of the holdings and of the sums expended on the purchase of live-stock, &c."

The disappointing state of affairs in County Dublin where, according to the evidence quoted above, half the total number of reinstated evicted tenants are letting their lands, and several have never even occupied the houses given to them, nor made proper use of the £100 free grants, emphasises the importance of character and fitness as compared with the possession of capital. These evicted tenants were presumably drawn chiefly from in and around the city of Dublin and not from rural districts, and had therefore to a large extent so lost touch with the practical work of a farm that the mere provision of funds could not transform them into successful agriculturists.

The arrangements made for the supervision of the expenditure of the money, whether loan or grant, by qualified persons in the neighbourhood, or by an Inspector of the Estates Commissioners, have undoubtedly been a chief factor in bringing about the comparatively small percentage of persons who have misused the money advanced.

Rev. A. Clancy,
8397-8.
J. Benner,
6236, etc.

Diminishing Proportion of Free Grants to new holders.

747. The Estates Commissioners, with their staff of Inspectors in close touch with the needs of the new holders, are naturally in the best position to judge as to the desirability of free grants being given in certain cases instead of repayable loans. In our opinion the soundest economic policy would be to diminish, as far as possible, the extent to which non-repayable advances are made; and this course is, we understand, being steadily pursued by the Commissioners. Such non-repayable grants are admittedly intended to meet very exceptional cases, where the advancing of repayable loans would not be feasible. The operations in connection with the reinstatement of Evicted Tenants† have hitherto, as we have seen, absorbed the bulk of these free grants, which are likely to diminish very

Para. 743.

*Cd. 6436, p. XXII.

†See Section 1 (2) of 7 Ed. VII., ch. 56.

appreciably in amount as the reinstatement of the limited number of eligible evicted tenants draws to a close. But exceptional cases of new holders requiring special financial aid are sure to be met with from time to time.

Para. 740. For the purposes of obtaining stock, seeds, implements, and manures, grants and not loans have necessarily been made, since advances for such current expenditure could not be made repayable with the purchase annuities. The provision of financial aid for current expenditure of this nature, however, seems to us to be to some extent outside the normal functions of what is primarily a Department for the carrying out of the operations of Land Purchase. We have had occasion to refer to this aspect of the problem when dealing with the lending functions of the Congested Districts Board. The extension of sound Credit Societies should in time enable this branch of agricultural credit to be dealt with mainly by them, and not by any State Department.

Paras. 700-1.

Expenditure on Improvement repayable by landholders with Purchase Annuities.

Para. 741. 748. A special feature of the land improvement expenditure of the Estates Commissioners for the benefit of the new holders is the fact that money thus expended is made repayable, as far as possible, with the Purchase Annuities. This convenient arrangement means that the expenditure is not finally repaid in full for the long term of almost 70 years, a gradual process which makes the burden almost inappreciable, and ensures automatic and regular repayment of the instalments of principal and interest. The expenditure in fact represents merely the enhanced price of the estate consequent on the improvements made.

Under the Land Act of 1903 this arrangement was applicable only in cases of estates purchased and resold by the Land Commission, and not in cases of direct sales between landlord and tenant. In their *ad interim* Report issued in April, 1905, the Estates Commissioners stated that they had been advised "that in cases of estates sold by landlord to tenant direct, they cannot make advances for improvements repayable by annuities under the Purchase Acts. Such advances must be made out of the Reserve Fund by way of free gift, or under special contract for repayment. It is manifest that if free gifts out of the Reserve Fund were given to any considerable extent, the Fund, which only amounts to £250,000, would soon become exhausted."* We note also that one of the proposals put before the Royal Commission on Congestion in 1908 on behalf of the Department of Agriculture was as follows:—"In order that the new holders in the West may be able to develop under the County Committees' and the Department's schemes from grazing to tillage and dairy farming, the advance for buildings erected under supervision should be adequate to provide houses suited to a mixed grass and tillage farm. The enhanced value of the holding and the facilities for increasing the income from the farm which this equipment would mean would more than justify the consequent increase in the purchase annuity."

Para. 714. By the Land Act of 1909 (passed in the year after the issue of the Report of the Royal Commission on Congestion), provision was made† extending the principle of improvement advances repayable with purchase annuities to approved cases of direct sales between landlord and tenant. This did not apply to improvements made by the Congested Districts Board on tenant purchasers' holdings in the congested districts; but that Board have expressed their desire that the same powers should be conferred upon them in this respect as are given to the Land Commission by the above legislation.‡

Para. 741. In considering the amounts advanced by the Estates Commissioners in repayable loans and in free grants respectively, it should be borne in mind that many individual transactions are included at the same time under both heads. Although it is the usual practice of the Commissioners to add to the purchase money the whole of the capital expended by them on permanent improvements on the holding, yet a portion of such aid is often given as a free grant.

Illustrations from other countries of remission of repayment of State loans during earlier years.

749. In connection with the system of land improvement expenditure made repayable with the purchase annuities, your Committee desire to submit as worthy of careful consideration the following proposal in regard to repayment.

* Cd. 2471, p. 13.

† 9 Ed. VII., c. 42, Section 30.

‡ *Nineteenth Report of Congested Districts Board* [Cd. 5712-1911], p. 27.

An inherent feature of all land improvement expenditure is the length of time which must elapse before it can become reproductive. It is therefore during the earlier years that repayment is found to press most hardly, for there has not, as a rule, been time for the money thus sunk on land or buildings to become fruitful. This difficulty has been recognised and dealt with in various ways in the land credit systems of other countries. For instance, in the land colonization schemes carried out in Northern Germany, the colonists who have to erect buildings on their holdings may be freed from the obligation to pay rent for one, two, or even three years.* We observe also that in the new Bill drafted by a special Commission appointed by the Italian Minister of Agriculture a short time ago to enquire into agricultural credit in Southern Italy, it is proposed that rural credit loans, made by the suggested agricultural Credit Institutes, for farm building construction, drainage, fencing, roads, planting, &c., shall be redeemable in a period of from 3 to 30 years; but that when the term is over 15 years, the borrower will for the first five years pay only interest, the principal being repaid during the rest of the period agreed upon.†

In Denmark, under the law passed in the year 1899 for the establishment of Small Holdings (as amended by subsequent legislation), every man or unmarried woman who is employed principally as an agricultural worker or has worked on a farm of a size referred to in the law, is entitled on certain conditions to receive a loan from the State for the purchase of a Small Holding. This State loan is granted against a mortgage on the holding (including building, implements, live-stock, &c.), and bears interest at 3 per cent. No instalments are required for the first five years. The same principle of remission of all payment for the first five years is found in connection with the loans made under the law of 1907 from the Danish State Loan Funds for the parcelling out of agricultural properties.‡

Proposal that Repayment of Principal of Annuities should be remitted for at least one year in certain cases.

750. Other illustrations of the application of this useful plan in long-term rural credit could be quoted.§ In the work of the Estates Commissioners, the principle is already partially recognised in that interest is not charged to a tenant-purchaser, for advances made, during the period that elapses before his holding is vested in him. In many instances the adoption of the principle would, we believe, prove extremely helpful to the new peasant proprietors in Ireland. We think that the period for the commencement of the repayment of land purchase annuities, with any addition made for improvements, should, at the discretion of the Land Commission, be deferrable for at least one year, and possibly in exceptional cases for some time longer. Presumably, however, it would be necessary for the holder to pay interest during the period of remission of repayment of principal, in order that interest on the Land Stock might be paid. The re-introduction of the recent Irish Land Bill would seem to afford an opportunity for making this slight but useful amendment in existing legislation.

Need for more Tillage by Tenant-Purchasers.

751. We have had occasion elsewhere in our Report to refer to the many benefits which increased tillage would confer upon the rural life of Ireland. A strong argument in favour of tillage being undertaken by the small farmer was put forward by the late Mr. M. F. Hogan—based upon his experience in settling tenant-purchasers upon their new or enlarged holdings:—

“ If you make it easy to borrow money to buy stock to graze the land you blow a lazy farmer into a still lazier grazier, you put a premium on grazing, and discourage tillage. No man can live and rear a family on the profits of grazing 20 or 30 statute acres. The man who depends on the profits of grazing 30 acres is no good for himself or his family, and he is useless to the country. 7008.

*See *Bulletin of Economic and Social Intelligence* (Rome), December, 1912, p. 165

†*Annals of Credit and Thrift*, No. 99, 1912: *Proceedings of the Commission for the Reform of the Laws on Agricultural Credit in the Provinces of the Southern Mainland and the Islands, Department of Agriculture, Industry and Commerce, General Management of Credit and Thrift, Co-operation and Social Insurance*, 1913, quoted in *Bulletin of Economic and Social Intelligence*, Rome, September, 1913, pp. 57-62.

‡See *Notes on the Agricultural Conditions in Denmark*. United States Senate Document 992, p. 25.

§See, for instance, Sec. 6 of the *Congested Districts (Scotland) Act*, 1897, which gives power for the deferring of repayment of first instalment of principal and interest for 18 months from date of making the advance.

"The men who are succeeding best are the men of small capital with industrious families who have a fair proportion of their land under tillage, who feed pigs and rear calves and keep poultry, and who work what I may call the 'side-shows' of the farm well, who do not go to the fair to buy grazing stock beyond a calf or a yearling or two. A couple of young pigs cost £2; a couple of young bullocks cost £18 or £20; the pigs pay more, and the capital employed is only one-tenth. Besides the family are brought up to the habits of industry, and the labour of the children, that would otherwise be valueless, is utilised in feeding the fowl and pigs, in helping to save the turf and hay, and weed the potatoes and turnips."

The Financial Value of the "side-shows" of the Farm.

Paras. 181-2.

752. The potentialities attributed by this witness to the so-called "side-shows" of the farm, viz., the smaller agricultural industries dealing with poultry, eggs, bacon, butter, &c., were not, in our opinion, at all over-estimated by him. In dealing with the shop debts of the rural classes, we have pointed out the exceedingly beneficial effect which would accrue to the farmer's household economy in various ways by the production on his own land of much of the food for his family and of the feeding stuffs for his live-stock, now so largely bought by him—too often of an inferior quality and at a higher cost, when compared with the quality and price of the home-grown article. Much of the hampering indebtedness of Irish farmers in some districts is due to this uneconomical method of carrying on the industry of agriculture. We are aware of the many difficulties attached to the problem of the revival of tillage in Ireland, the chief being connected with questions of labour. But on small holdings, where the necessary labour could be furnished mainly by the tenant-purchaser himself and his family, there seems no reason why an industrious man should not, by tilling a fair proportion of his land and developing the "side-shows" above referred to—with the assistance in deserving cases of moderate loans for specific reproductive purposes—greatly increase the income from his holding,* and appreciably raise the standard of comfort in his home.

Regularity of repayment of Land Purchase Annuities.

753. A striking feature of the working of the system of land purchase in Ireland is the extremely small proportion of the new peasant proprietors who allow the repayment of their annuities to fall into arrear.

On 31st March, 1913, out of 215,537 payers of Land Purchase Annuities of a total amount of £2,415,745 collectable in the year ended on that date, 6,517 payers (or 3 per cent.) were in arrears to the extent of £48,563 (or 2 per cent. of the total due). By the 1st July, 1913, i.e., within a period of three months, the number of payers in arrear had fallen to 1,378 (or only .6 per cent.), and the amount of arrears to £12,959 (or only .5 per cent. of the total due). Thus on the latter date the annuities in arrear amounted to only a little over ten shillings in £100.

According to the last Report of the Land Commission, "the holdings of 173 purchasers under the Land Purchase Acts who were in default in payment of their instalments were advertised for sale during the year. In 122 of such cases the sales were withdrawn, the arrears having been paid; in 31 cases the holdings were sold to ordinary purchasers, and in 20 cases where there was no bidding at the sale the Land Commission have instituted proceedings to take possession of the holdings pending resale. In 16 cases where possession was taken, the holdings were on 31st March, 1913, still in hand for resale."†

Several witnesses brought under our notice a practice adopted by a considerable number of purchasers who, with a view to obtaining the use of money at a low rate of interest at the cost of a small fine, intentionally allow the repayment of their land purchase annuities to get into arrear, and a process to issue, the arrears being paid without allowing the case to come into Court. Amongst the witnesses who referred to this method of obtaining credit was the Chairman of the County Longford Committee of Agriculture, who said:—

"I know a way that may be new to you—a way that men have of obtaining loans without that expense, and getting six months' credit at a minimum cost. Some farmers who have purchased their holdings, instead of paying their annuities to the Land Commission when they fall due, frequently retain the money until a few days before the Sessions, where, for 5s. costs, they can have a loan of £10 for six months. Very few Sessions pass without 500 or 600 processes against tenant purchasers in County Longford, and not more than forty of these would go into the Court.

Q. "I think they have discovered that means in other counties. We had evidence of that elsewhere?—A. I thought we had discovered something new in Longford!"

* The important financial value of the smaller agricultural industries, especially those dealing with "breakfast-table" commodities, may be seen from the Annual Import and Export Statistics for Ireland, published by the Department of Agriculture and Technical Instruction.

† Report of the Irish Land Commissioners for the period from 1st April, 1912, to 31st March, 1913 (Cd. 6979), p. IX.

It is evident that this form of securing cheap credit has become fairly popular in some districts, although the proportion of such cases to the total number of tenant-purchasers is small. The practice, needless to say, is one to be discouraged by all who have any influence with the new holders. For one thing, it tends to give to these new peasant proprietors a reputation for impunctuality which, as a class, they are far from deserving.

M. F. Hogan,
6963.

Land Improvement Expenditure of Estates Commissioners sufficient, on the whole, for needs of new holders thus dealt with.

754. From a careful survey of the various facts brought before us, your Committee are of opinion that in respect of permanent improvements to the land, such as expenditure upon buildings, fencing, &c., the needs of the new tenant-purchasers outside the congested areas who are receiving new or enlarged holdings through the Estates Commissioners are, on the whole, being adequately met by the system administered by the Commissioners. In view also of the careful selection made by the Commissioners, so as to ensure that as far as possible the newly created peasant proprietors shall not be destitute of some ready capital, we believe that there are not many cases where it would be advisable to advance long-term loans to this particular class of farmer. We are rather inclined to agree with the view that "the tenants who are not migrated at all, and who get no enlargements, are better entitled to consideration in the way of financial assistance than the people who are moved."

6973-4.

But a revision of the system of Land Loans administered by the Board of Works, so as to make it more elastic and more adapted to the needs of the smaller farmers would, in our opinion, be the most satisfactory method of dealing with the requirements of the new holders in respect of land improvement expenditure, thus leaving the Estates Commissioners and the Congested Districts Board free for their specific work of land purchase, sale, and settlement.

Paras. 688-93.

The important branch of rural credit which concerns the obtaining of capital for the purpose of stocking the land, and for the purchase of agricultural implements, seeds, manures, &c., is, as we have seen, left virtually untouched by the operations of the Estates Commissioners, save in the cases of reinstated evicted tenants (who stand in a class apart) and in other rare instances, such as those of needy migrants. Nor does the provision of capital for these objects, important though they are, seem to be properly a burden which should be placed upon the Estates Commissioners.

Para. 747.

Your Committee, consider that the making of advances for agricultural purposes which do not entail prolonged periods before the expenditure becomes reproductive can be best dealt with not by any direct State advances, whether by way of loan or grant, from Government Departments, but through the agency of Co-operative Credit Societies.

Undesirability of making large loans to small farmers.

755. Several witnesses at our Inquiry dwelt upon the risks attached to making loans of too large an amount to small farmers. Some of these stated that loans of £30 were quite large enough for safety. This maximum was advocated by Mr. Hogan, whose reasons we think it desirable to quote:—

See also para. 496.

"No amount of capital would make some men succeed. I know men to whom an advance of £20 or £30 would be a blessing, and I know men to whom £50 or £100 would be a curse. You must not take me as saying that financial assistance on easy terms would not be an advantage to some of them, even to those classed amongst the successful ones. On the contrary, I believe it would be highly beneficial, give them a great lift, and help them to reach comparative prosperity, which is already fairly well in sight. But I would strictly limit loans to £30 or under. I would make small loans for the purchase of a cow, a horse, a pig, or a few sheep, or, still more important, for seeds or implements, or the putting in of a crop.

"But under no circumstances would I advance £50 or £100 for the purchase of grazing stock, or for what is commonly understood as stocking the farm. I would even prefer to see a man setting a small proportion of his land, or sell a few tons of hay or some of con-acre meadow, rather than resort to borrowing money to buy stock to graze it. Successful graziers on a large or small scale in the districts of which I speak are very few, and I am sure that the small holders under review would not make grazing a success. Borrowing made easy, except to a very limited extent, is a highly dangerous experiment. If you would make it easy for a small farmer of the

class we have called failures, or partial failures, to borrow £60 or £80 to buy stock, you, in my opinion, put him on the high road to ruin. I know many men who, if they had easy access to credit, would be sold out long ago. 'Borrowing dulls the edge of husbandry,' and a loan in such a case would probably lose both itself and the farm."

The suggestion that a system of long-term agricultural credit should be established in Ireland by means of Land Mortgage Bonds or some similar scheme based on Continental models, such as the German *Landschaften*, is one not infrequently made, and is dealt with by us elsewhere.

Paras. 849-58.

CONCLUSIONS.

756. The following are our main conclusions in regard to the expenditure of the Estates Commissioners on the improvement and stocking of holdings :—

Para. 739.

(a) The carrying-out of land purchase in Ireland by means of State aid fortunately precludes the necessity of including in the scope of our Inquiry the question of the supply of capital and credit to farmers for the purchase of their holdings—an object with which many of the rural credit problems of other countries are concerned.

Paras. 741-8.

(b) The Estates Commissioners' expenditure for the benefit of the new holders consists of advances repayable with Land Purchase Annuities, and of non-repayable grants. The expenditure sanctioned under these heads from November, 1903, to March, 1913, amounted to £247,029 and £320,460, respectively. The reinstatement of evicted tenants accounted for £340,318 of the total. The Commissioners are reducing as far as possible the number of free grants, which have been chiefly made in the cases of Evicted Tenants, and in similar exceptional instances.

Para. 749-50.

(c) In many cases, the remission for one or more years of the repayment by a tenant-purchaser of the principal of the land purchase annuity or other State advance would be helpful; for it is during the earlier years that the pressure of repayment falls most heavily on the small farmer, before the money sunk in land or buildings has had time to become reproductive. Such remission of repayment of State advances during the earlier years is frequently found on the Continent.

Para. 753.

(d) The regularity of the repayment of Land Purchase Annuities furnishes one of the strongest proofs of the credit-worthiness of the Irish agricultural classes.

Paras. 754-5.

(e) The expenditure of the Estates Commissioners for land improvement purposes adequately meets, on the whole, the needs of those dealt with, especially in view of the care taken in selecting new holders who shall not be destitute of some ready capital. But the provision of capital and credit for current expenditure, as stock, implements, &c., is work properly lying outside the functions of the Estates Commissioners, and can best be done through the agency of Co-operative Credit Societies.

Loans and Free Grants made by State Departments in Ireland for various Agricultural purposes in the Year ended 31st March, 1913.

757. Having completed our consideration of the loans and grants made for agricultural purposes in Ireland by the four Departments concerned, it will be convenient to set forth in Tabular form these various operations of the State in the sphere of rural credit.

It will be observed that the total expenditure in one year was over £212,000.

	Loans.	Advances Repayable with Annuity.	Free Grants.	Total.
	£	£	£	£
(a) BOARD OF WORKS.				
Drainage, Maintenance, &c.	632	—	—	632
Field Works	2,885	—	—	2,885
Farm Buildings	103,126	—	—	103,126
Labourers' Cottages	3,152	—	—	3,152
	£109,795	—	—	£109,795
(b) CONGESTED DISTRICTS BOARD. <i>(Figures for year 1912).</i>				
Improvement of Dwellings of tenant-purchasers not exceeding £7 valuation ...	2,720	—	—	2,720
Erection and Improvement of Dwellings of Tenants on Estates purchased by Board	—	4,538	3,009	7,547
Free Grants through Parish Committees for Erection and Improvement of Dwelling-houses and Out-Offices to Landholders not exceeding £7 valuation	—	—	13,765	13,765
Purchase of Live Stock	3,417	—	—	3,417
	£6,137	£4,538	£16,774	£27,449
(c) DEPARTMENT OF AGRICULTURE AND TECHNICAL INSTRUCTION.				
Purchase of Bulls	5,285	—	—	5,285
Purchase of Stallions	1,990	—	—	1,990
Fencing	2,750	—	—	2,750
Agricultural Implements	1,772	—	—	1,772
Miscellaneous	266	—	—	266
<i>(Schemes for fruit growing, repair and equipment of meal mills, erection of hay-barns, etc., are now in operation.)</i>	£12,063	—	—	£12,063
(d) ESTATES COMMISSIONERS. <i>(Expenditure for Improvement of Estates and Untenanted Land, Reinstatement of Evicted Tenants, &c.)</i>				
Building and Repair of Houses	—	26,371	9,326	35,697
Drainage, Fencing and Amalgamation of Holdings and Parcels, &c.	—	11,302	4,077	15,379
Purchase of Stock, Seeds, Implements, Manures	—	—	11,381	11,381
Miscellaneous	—	400	465	865
	—	£38,073	£25,249	£63,322
TOTALS	£127,995	£42,611	£42,023	£212,629

SECTION IX.

THE CREDIT NEEDS OF RURAL INDUSTRIES.

Although your Committee's Inquiry has had as its main object the consideration of the credit requirements of agriculture, there is another important branch of activity in rural districts which has in many cases so intimate a connection with purely agricultural credit problems that it is difficult to separate them. We refer to the various rural industries of the country, whether the industries carried on in the homes of the people, often as supplementary to their main calling of farming; or the small mills for the production of woollens, tweeds, linen goods, &c., which are in operation in many villages, and give much-needed employment in the locality, especially to the women and girls. We have therefore interpreted our terms of Reference as not excluding from our consideration the needs of these and similar rural industries in respect of capital. Ireland is not likely to become a manufacturing country on any considerable scale; but her soundest economic development cannot be attained, we believe, unless an extensive expansion of her small rural industries takes place concurrently with her agricultural progress. This important question was dwelt upon in the Report of the Recess Committee in 1896.

DIRECT ADVANCES FROM STATE FUNDS TO RURAL INDUSTRIES NOT, AS A RULE,
ADVISABLE.

758. We are aware that in our use of the term "rural industry" we are employing it in a perhaps somewhat wider sense than that in which it is used in the Act of 1899 creating the Department of Agriculture and Technical Instruction.* "Home and cottage industries" specifically come within the scope of that Act as matters which, like agriculture, can be aided from the Department's Endowment Fund; but woollen mills, &c., even in rural districts, would apparently be treated under the Act as "non-rural" industries, assistance to which can be given by the Department only in the form of technical instruction.

This distinction was referred to in the Report of the Department of Agriculture and Technical Instruction Inquiry Committee in 1907,† who stated that there was "evidence to show that in a large part of Ireland urban industries cannot be re-established without further aid than is proper under this limitation. It has been pointed out to us that in the development of an industry involving operations new to the population of a locality, the preliminary period of non-profitable effort through which each individual worker has to pass is of much greater length than can be faced under ordinary conditions, and that the business as a whole is handicapped on this account as well as by the special difficulty of securing a market for goods produced in a new locality. We learn, too, that there is a special difficulty in obtaining capital for manufacturing or other industrial ventures established in parts of Ireland which have no existing connection with such enterprise. It is obvious that aid of a financial kind—whether direct or indirect—to enable new industrial projects to overcome initial difficulties, is beyond the scope of the Act, and we are of opinion that whatever aid may at any time be given in this direction ought to be quite distinct from aid by technical instruction." The Committee also indicated the difficulties which would inevitably arise—and indeed had already arisen in some cases—if the Department's aid were to be given to specially selected industries.

*Desirability of utilising in Irish industries an increased proportion of the large sums in
the Joint Stock Banks.*

759. We do not feel called upon to discuss in any detail the question of the desirability or otherwise of a large expenditure of State funds for the development of Irish rural industries, such as is undertaken in various Continental countries. Our terms of Reference alone would preclude any recommendation of direct State financial aid. But we may say that we have received no evidence at our Inquiry which would lead us to believe that such direct State advances to industries would be desirable, save in the most exceptional circumstances, such as those instances in the western areas where the Congested Districts Board, in the exercise of their wide legal powers in this sphere, have revived or established various industries in necessitous places, partly by grants or loans.‡ The general application of

* See Department of Agriculture and Technical Instruction Act of 1899, Section 16 (1) (g).

† Cd. 3572—1907, pp. 101–2.

‡ In the year 1912–3 the Congested Districts Board issued 31 Industrial Loans, amounting to a total of £4,391. (*Twenty-first Report of Board*, Cd. 7312–13, p. 43.)

such State support to industry throughout Ireland by the Department of Agriculture and Technical Instruction or by any other Government Department would be, we consider, a great mistake on many grounds. All competing industries would have an equal claim to such advances of public money. Some of the chief reasons against expenditure of State funds where individual enterprise is called for will be found in the Section of our Report dealing with the advances of State money to Credit Societies.

See paras. 595-8.

We believe that with the huge sum of £62,000,000 in deposits and cash balances in the Irish Joint Stock Banks there should be no need whatever of State financial aid for industry, if means were only found of creating an industrial atmosphere and enabling an increased portion of this amount—much of which now finds its way out of Ireland for investment—to be directed in this country into channels which would be safe and profitable to the investor.

With the useful aid which the Department of Agriculture can render through technical instruction and by grants for the training of workers—both directly and through the technical instruction schemes under the County Committees—and with the co-operation of the Congested Districts Board in congested areas, methods might, we consider, be devised which would enable additional capital to be placed at the disposal of those who, solely for lack of it, are unable to develop their business *pari passu* with the demand for their goods.

Evidence as to the need of increased capital for Rural Industries.

760. We had the advantage of hearing evidence at our Inquiry from witnesses representing various branches of Irish rural industries.* Some of these were able to speak from personal experience of the circumstances of the hand loom linen trade, the shirt industry, the woollen industry, homespuns, &c. Several of the witnesses were themselves the owners of the particular industry of which they spoke. A woollen manufacturer of County Cork stated that many woollen mills had closed down in the South of Ireland during the last twenty years for want of capital to provide modern machinery. Wages were rising, and competition was very keen in the industry, so that the rate asked for loans, 6 per cent., was too high, in view of the small profits possible.

C. J. Sheehan,
18292.

This view was also put forward by a shirt manufacturer from County Derry, employing 100 hands, who stated that he "would not embark on the undertaking, paying 6 per cent. for capital." He said:—"The want of financial assistance for small rural industries is very apparent. Many a man could embark on an enterprise such as shirt manufacturing, hand loom tweed weaving, or embroidery business, but for the difficulty of obtaining capital and credit at reasonable interest. These businesses nearly all pay wages in advance to workers, or at any rate, wages before the goods are marketed. This means that capital must be available, and many industrious men are prevented from making a start by the difficulty of finding capital. . . . We manufacture shirts for the wholesale houses, who make a profit on our work, the prices obtained leaving a very small margin of profit to ourselves, as well as low prices to our workers; whereas, if capital were available at a reasonable rate of interest, we could manufacture the goods and market them on our own account. This would enable us to give better wages to our workers, and generally benefit the district in which our business is situated."

A. Barbour,
15070.

761. While some witnesses emphasised the need for a lower rate of interest on advances, others dwelt upon the difficulty of obtaining any capital for the development of industries. One woollen mill owner in County Clare, who had trebled his business in six years, stated that the demand was so great for his products that orders had to be cancelled.

J. O'Flynn, 9696,
9705-14.

Q. "Why didn't you increase your plant?" A. I have not got sufficient capital.

Q. "That is what I want to get at?" A. Not to expand to the amount of business we could get. We could be making more, and spending it year after year putting down plant. But we have not sufficient capital. . . . We can't get it for driving machinery and plant. Irish banks don't consider it much security for money.

Q. "They won't look upon machines and plant as sufficient security?" A. No.

Q. "Would they not look on the business you were doing, with the increase you are likely to do, as sufficient security?" A. Yes, they might, if we can show a balance sheet.

Q. "Won't they work that out?" A. No.

Q. "And won't they look into your character for business and your technical training?" A. No. . . . We have in use a gas engine that cost £500, and I don't think we would get £100 upon it."

*Concise accounts of the nature and development of the more important of Irish rural industries will be found in "Ireland: Industrial and Agricultural" (issued by the Department of Agriculture), and in the other publications referred to in the Bibliography on p. 390.

The witness believed that all the Irish woollen mills of which he knew were in the same position of having more trade at their disposal than they could afford to manage. This state of affairs was also exemplified by the evidence of a witness owning woollen mills in County Kerry, who said :—" We want money to add to our machinery, because with a little bit of capital we could have four times our output." The erection of houses for workers was another object for which several witnesses stated capital was needed by them. Another owner of a wool spinning industry pointed out that with a supply of capital he would be able to hold over for the best markets ; without capital the industry was crippled.

We were glad to find several instances of young Irishmen who had won Industrial Scholarships, receiving thereby a technical training in Yorkshire College and elsewhere, who informed us of the many advantages which this training had conferred upon them in the technical and business management of their industry, including the designing of patterns.

Deficiency of Capital prevents adequate marketing arrangements.

762. In other cases witnesses informed us of the difficulties connected with the marketing of the product, even though a large demand for it existed, because the lack of capital prevented a special paid agent being employed ; thus the workers in the hand loom industry through lack of proper organisation often receive much lower than the proper price for their work. The close relations between agriculture proper and rural industry is illustrated by the information given to us in regard to the homespun industry around Kenmare. About sixty families, we were told, are engaged in the work, and about 150 spinners are required to deal with the product. Most of those engaged in the industry are small farmers of about £10 or £15 valuation, and even lower, who treat weaving as a subsidiary source of income to their farm. When dealing with the loan schemes of the Congested Districts Board, we have shown how large a part is played by rural industries in the household economy of many western farmers.

Various problems of capital and credit connected with Irish rural industries were referred to by witnesses who appeared before the Select Committee of the House of Commons on Irish Industries in the year 1885.* This Committee does not appear to have been re-appointed at the end of the Session of Parliament or to have issued any Report. But much of the evidence given before it by such competent witnesses as Sir R. Kane is extremely interesting, and is more or less applicable to the existing conditions of Irish rural industry.

Unwillingness of Joint Stock Banks to accept Machinery, Mills, &c., as security.

763. The many difficulties almost inseparably connected with land mortgage security in agriculture proper are also found, even to an increased degree, in the sphere of rural manufactures. The evidence at our Inquiry goes to show that Banks are naturally unwilling to accept mills, machinery, &c., as sole security for an advance. There are admitted difficulties connected with the realisation of security of this nature ; but the need of capital is in many instances so pressing, and the prospect of wide development of many industries so promising if adequate funds were forthcoming at a sufficiently low rate of interest, and with suitable conditions as to repayment, that we consider it would be very desirable that some such scheme as the following should be carefully considered by the Joint Stock Banks, the Congested Districts Board, and the Department of Agriculture.

State Departments might furnish useful information to Banks in respect of business and technical management, financial position, and assured market of a particular industry.

764. If the State Department concerned were, after receiving careful reports from their expert advisers or inspectors in regard to a particular rural industry, to feel convinced that the case was fully satisfactory in respect of competent business and technical management, ready outlet for the product, and in other ways, it might furnish to a Bank the fullest

*Minutes of Evidence taken before the Select Committee on Industries (Ireland) [235-1885].

R. Eadie, 5298.

W. V. Coote,
12723-5.

Miss O'Malley,
10313.

T. Bankhead,
16096.

W. H. Mansfield,
3355.

See paras.
698-700.

information upon these matters, which possibly the Bank could not otherwise obtain with equal facility. Such information (which a Bank as a rule can easily obtain in respect of a town industry carried on near its doors) should in many cases be of much aid in enabling the Banks to judge as to the certainty of repayment of advances made to the rural industries in question.

We do not know how far, if at all, this assistance from State Departments in ascertaining the exact position of such industries would induce the Banks to advance money in deserving cases in great need of capital. But we should hope that some such scheme would be feasible, with a view to enabling a small manufacturer who has ability, business and technical training, combined with an assured market for his goods—but lacks only the essential capital without which these things are largely useless—to obtain on reasonable terms as to interest and period of repayment, the additional funds essential for the development of his enterprise.

CONCLUSIONS.

765. Our conclusions in regard to the credit requirements of Irish Rural Industries are as follows :—

(a) The making of State loans or grants to industries for other than such purposes as technical instruction and training of workers is not, in our opinion, a method of aid which would be, as a rule, either desirable or indeed feasible, save in such exceptional circumstances as those dealt with by the Congested Districts Board in necessitous districts. Paras. 758-9.

(b) There are ample funds on deposit in the Irish Joint Stock Banks for the development of rural industries, if means were only found of creating an industrial atmosphere, and attracting to an increased extent the confidence of the investor and of the Banks. Para. 759.

(c) The evidence at our Inquiry makes clear that there are in Ireland to-day many rural industries, carried on both in the factory and in the homes of the people, which through lack of adequate credit facilities at low rates of interest and for a sufficiently long period, are greatly limited in their scope. In numerous instances, the demand for the product far exceeds the supply which is possible unless additional capital be obtainable. Paras. 760-1.

(d) The making of adequate marketing arrangements is often similarly prevented mainly through the absence of the necessary capital. Para. 762.

(e) The difficulties attached to mortgage security in the case of land are found also, even to an increased degree, when the effort is made to obtain funds on the security of a mill or machinery in rural districts. The Banks can usually obtain with facility full information in regard to business concerns carried on in the towns, at their very doors; but such information is not so easily forthcoming in regard to rural industries. Para. 763-4.

(f) We recommend that, in suitable cases, the Department of Agriculture and the Congested Districts Board should obtain, through their expert officers in any particular line of rural industry, full information in regard to the competency of the business and technical management of a particular industry, the assured demand for the product, the need for additional capital, and similar details. Such information should in many cases, we believe, be of much assistance, if furnished to a Joint Stock Bank, in enabling the latter to make, with absolute safety, needed advances to a deserving industry. Para. 764.

SECTION X.

MORTGAGE OR LONG TERM CREDIT.

Having dealt with that branch of long-term agricultural credit which is concerned with advances made to farmers by Irish State Departments (both on real and on personal security), we propose to consider the important question of mortgage credit generally in Ireland, and the extent, so far as ascertainable, to which the charging of the land takes place as security for money lent to farmers, whether by ordinary creditors, by Joint Stock Banks, by moneylenders, by the State, or in other ways.

We are much indebted to the Land Registry and the Registry of Deeds for the Returns prepared by these Offices in compliance with our request. Although these Returns necessarily cover only a limited period, they have furnished us, we believe, with sufficient data to enable some useful generalisations to be made (as far as we know, for the first time) in regard to the number and amount of land mortgage transactions annually carried on in this country, and the rate at which the soil is being placed under a burden of debt.

Universal difficulty of ascertaining the facts as to extent of mortgaging.

766. Even in those Continental countries where more or less complete systems of compulsory registration of title or of mortgage charges exist it is not easy to arrive at more than an approximate estimate of the total mortgage burden upon the land, or of the rate at which such burden is increasing or diminishing; wide divergences exist in the estimates made by different authorities. The question of mortgaging is admittedly of special interest and importance in its relation to the present rural economy of Ireland and the successful establishment of the new peasant proprietors. The experience of other countries whose agriculture is carried on mainly by small holders is often adduced in support of the contention that a peasant proprietary is a form of ownership of land peculiarly liable to the evils arising from over-indebtedness.

When a small agriculturist finds himself owner of his holding, and is at the same time in need of capital for such objects as land improvement, or a family settlement, or the purchase of an addition to his farm, the temptation to utilise his property, often to an unwise extent, as security for an advance is one hard to be resisted. The fact that by means of long-term mortgages, when repayable on the sinking-fund system in instalments, a farmer can throw part of the burden of the debt on future owners, and that thus the burden of repayment is not much felt, tends to lead him to borrow too light-heartedly to the fullest possible extent which the value of his property, or the law, will allow. In many cases, the greater the credit facilities, the more weighty the burden; what is a good servant, when under proper control, has become a bad master.

Para. 3.

Difficulty of drawing the line between wise and unwise mortgaging.

767. Not only do authorities differ greatly as to the extent to which the small holders of various countries are burdened by mortgage debts; but the difficulty of arriving at correct conclusions is still further complicated by the fact that much of the "burden" created by thus charging the land has been, on the whole, beneficial rather than otherwise to the borrowers, since it has provided needed credit facilities not otherwise obtainable. Few problems affecting agricultural finance are less easy of solution than that of endeavouring to draw the line of demarcation between wise and unwise mortgaging. As Mr. H. W. Wolff justly says:—"Mortgage-credit is often spoken of as an unmixed evil, a result necessarily of previous extravagance or of imprudence, a very millstone tied around the land-owner's neck, and hopelessly dragging him down. It is quite true that it may become all this. But it may also be, as it has become in not a few cases, the foundation of great wealth, and the efficient cause of the productiveness of the very land which it appears to burden. . . . Land wants money, to bring out its productive and wealth-engendering properties. . . . Once money has to be raised for such useful purpose, the most natural and most legitimate source to supply it may be held to be the land itself. Thanks to convenient credit arrangements it may be made so, and there can, therefore, be nothing inherently wrong in pledging the land as security for its own working capital."*

Considerations affecting investigation of mortgage indebtedness.

768. There are several other considerations which are, we believe, too often lost sight of in the treatment of problems of rural indebtedness. Statistics of any sort notoriously require cautious interpretation; and tables of mortgage transactions may lead to conclusions which the actual facts when investigated are not found to justify. For instance,

* *Co-operative Banking*, pp. 223-4.

the cancelling from the register of a mortgage when the debt has been repaid is not always attended to by the parties concerned, the result being that the list of apparently existing debts is frequently unduly swollen. Again, long-term loans are frequently repaid on the sinking-fund system by small instalments; but the loan is not cancelled till all instalments have been repaid. Nor again are these instalments—which may have considerably reduced the total indebtedness of a country—accounted for in the yearly returns. These important considerations do not materially influence comparisons made between different years in a period during which the yearly mortgage transactions are about the same in amount; for the paid-off but uncanceled mortgages each year will approximately balance the mortgages cancelled in that year, but of which the greater part had been paid off in previous years. Also, as time goes by, the transfer of land and other causes help to wipe out fictitious mortgage entries.

But if one investigates, not a stationary period, but a phase during which the registered mortgages show a continuously increasing excess over those paid off, it is clear that if no account be taken of repaid instalments, or if paid-off debts are allowed to remain on the register for some time, the cancelling of fully repaid debts cannot balance the entries of debts whose repayment began later and has not yet matured. Nor can the excess caused by the slowness in cancelling debts already paid off balance the error in the other direction caused by those mortgages which have been contracted, but have not yet been registered; for the latter represent a more numerous class of transaction. Hence the already increasing figures of indebtedness are, under these circumstances, unduly inflated.

Relation between price of land and figures of mortgage transactions.

769. It is also important to bear in mind, in considering the mortgage figures quoted in our Report, that land can usually be mortgaged on the Continent to not more than two-thirds of its value, and that in some cases the mortgage charge cannot exceed one-half this value, or even less. If, accordingly, when two-thirds is the limit, the returns show the land of a country to be mortgaged to, say, 60 per cent. of its value, this means that the whole land has been burdened almost to its full negotiable capacity. In Ireland land sold under the Acts of 1903 and 1909 cannot be charged with an amount exceeding about one-third the purchase price.*

Another factor at times lost sight of is the close relation between the price of land and the nominal amount of rural indebtedness. A rise in the former, such as has taken place in recent years in many countries, may lead to a large inflation of the nominal figures of the mortgage debt, without entailing any real increase in the indebtedness due to the investment of capital in agricultural operations. As we have shown elsewhere, the need for capital in farming has increased greatly with the growth of improved agricultural methods—this being a leading cause of the widespread mortgaging of land on the Continent; but the actual enhanced value of the land itself—as in Belgium, where land is sometimes worth £60 an acre—accounts for much of the apparent increase in indebtedness. When the price of land has thus risen, a farmer who finds it necessary to raise capital by a mortgage, say to pay off others who are entitled to a share in the land, is naturally forced to negotiate a loan for a larger amount than would have been necessary if the land itself had not thus risen in price. The precise rates of interest paid on mortgage loans, and the size of the sinking fund annuities, are also very material factors in the problem.

Para. 26.

Comparison between Ireland and some Continental Countries of Small Holders.

770. It will be useful, we think, before considering the subject of mortgaging by Irish farmers to glance briefly at the present position, so far as ascertainable, in regard to mortgaging by the small holders of some continental countries whose rural conditions in many aspects resemble those of Ireland, and whose mortgage indebtedness is often quoted as a warning. Some information on the subject was compiled by the Departmental Committee on Small Holdings in Great Britain (1906)† from Memoranda obtained through the Foreign Office, and from other sources. We have endeavoured to give from authoritative official sources the latest facts in regard to the countries selected by us.

The field is an extensive one, so that reasons of space alone would compel us to glance at only a few countries. Those we have selected are France, Belgium, Germany, and Denmark, which are all cultivated mainly by comparatively small farmers. The average size of holding (excluding those under one acre in extent) in these countries is as follows:—France, 24 acres; Belgium, 14½; Prussia, 33½; and Denmark, 49. For the United Kingdom the corresponding figures are, including grazed mountain land:—England, 72 acres; Scotland, 177; Wales, 67; and Ireland, 33. (If grazed mountain land be excluded, the latter figures would become 65, 62, 45, and 28 respectively.)

* See paragraph 820.

† Cd. 3278. (Minutes of Evidence, Appendices pp. 434-455).

The proportion of land cultivated by the owners (as contrasted with tenants) in the above-named countries is :—France, 47½ per cent. ; Belgium, 35 ; Germany, 86 ; and Denmark 88. For Great Britain the corresponding percentage is 12 ; but for Ireland it is 66 (or almost exactly two-thirds of the landholders), and the figure is steadily increasing.

Both in respect of the number of small farms, and the number of farmers who own their land, it is clear that the rural economy of Ireland much more closely resembles the circumstances of several Continental countries than it does those of the other portions of the United Kingdom ; and this resemblance is bound to increase with the progress of land purchase. The excessive sub-division of land, however, found in Belgium, France and elsewhere, is fortunately not likely to be a feature of the Irish agricultural problems of the future, owing to the statutory limitations on sub-division and sub-letting.

It should be remembered that on the continent the connotation of the term “ peasant proprietor ” is not the same as in Ireland. In Germany, for instance, a “ peasant’s estate ” is a middle-sized holding of from 7½ to 150 hectares (*i.e.*, from 18 to 375 acres) in extent *

Differences in standards of living in various countries are another important element to be taken into account. “ In the comparisons often made between the peasantry of this country and on the Continent, it is sometimes alleged that on the Continent the majority lead a more comfortable and happier life owing to the greater sub-division of the land there than here. In making such comparison the standard of comfort and living in the respective countries should be compared carefully. While it is a fact that the laborious Continental peasantry frequently save and invest money, they work for longer hours, and are satisfied with cheaper fare than the working classes in this country.”†

MORTGAGING BY SMALL HOLDERS IN FRANCE.

771. Many attempts have been made to estimate the total extent of the mortgage debt upon the land of France. Official enquiries into the agrarian debt were held in 1840 and 1877, while more recently other efforts have been made to ascertain the true facts. Thus in 1909 a Small Holdings Inquiry, which reported to the French Ministry of Agriculture, issued a series of monographs upon the economic position of the small holders in each Department of France. An analysis of this Report shows that in 71 of the 87 Departments of France, the Commission found no appearance of an excessively heavy mortgage debt upon the peasant farmers ; in 3 Departments the small holder, if he borrowed at all, did so in order to buy land ; in 1 Department the peasant had saved a good deal of money ; while in 10 Departments the burden of mortgage debt was reported to be excessive, but only in the case of vine growers ; (in the reports relative to 2 Departments no reference was made to mortgage indebtedness). The gravest injury to the French small holder seems to be due not so much to mortgaging as to extreme *morcellement* of the land. We observe that in the opinion of M. Ruau, formerly Minister of Agriculture, the mortgage debt of France weighs with equal severity upon the large and upon the small agricultural holdings. The figures published by the Ministry of Finance in 1890 showed that in the year 1841 loans of less than £40 represented 74 per cent. of the total number of mortgage advances and 20 per cent. of their value. In 1900 these figures had fallen to 45 and 7½ per cent. respectively, showing a marked decrease in the credit placed at the disposal of the small holder.‡ The great Land Credit institution of France, the *Crédit Foncier*, has as we shall show, dealt less and less with advances on rural property.

Para. 848.

MORTGAGING BY SMALL HOLDERS IN BELGIUM.

772. A very careful investigation extending over four years was recently conducted by Mr. B. Seeböhm Rowntree into the social and economic condition of Belgium, the results of which are embodied in his able book *Land and Labour ; Lessons from Belgium*. He devoted special attention to ascertaining as far as possible the extent to which agricultural land was mortgaged by small proprietors. His main conclusions are that the highest proportion of mortgages is to be found amongst proprietors of from 7½ to 86½ acres (40 per cent. of the holdings of between 37 and 62 acres are mortgaged) and that the mortgage debt is on the average about 13½ per cent. of the value of the property mortgaged, or 4¾ per cent. of the value of all the land investigated. His enquiry, he states, “ although on too slight a scale to indicate the total amount of the mortgage debt on agricultural land in Belgium, emphatically contradicts the assertion that the land of small proprietors is usually mortgaged up to the hilt. The figures afford no evidence that the percentage of those whose property is mortgaged is larger among the small than among the large proprietors.”§

* *Reports from Her Majesty's Representatives Abroad upon the position of Peasant Proprietors.* (C. 6250), 1891. p. 54.

† *Report of the Departmental Committee on Small Holdings in Great Britain.* (Cd. 3277). 1906, p. 5.

‡ See *Journal de la Société de Statistique de Paris*, December, 1900.

§ *Land and Labour* (1910), p. 52. One-third of the land of Belgium is cultivated by proprietors, as against two-thirds by tenants.

We find this view confirmed by other authorities. Thus, M. Emile de Laveleye, in an article on the Land System of Belgium and Holland, states :—" It has often been asserted that the peasant properties of Flanders are burdened with debts, and that loans on these are raised at various rates of interest. . . . The truth lies in the opposite direction. . . . Were a statement drawn up of the debts with which landed property is burdened in the various parts of Europe, it would be seen that large estates are generally more encumbered than small ones."* Belgium, we may point out, is pre-eminently the country of small farms, over 94 per cent. of the holdings being under 25 acres in extent, while the average holding (excluding those under 1 acre) is $14\frac{1}{2}$ acres in size.

If holdings of less than 1 acre be included, the average size of Belgian holdings is only 5.7 acres, as compared with 15 acres in France.

MORTGAGING BY SMALL HOLDERS IN GERMANY.

773. In Germany about half the agricultural area is cultivated by small holders possessing under 50 acres, and this proportion is increasing. As might be expected from the very ample supply of land mortgage credit and similar institutions in that Empire, the mortgaging of land takes place on an extensive scale. The total value of the outstanding loans granted on landed properties by the *Landschaften*, the Mortgage Credit Banks, the Joint Stock Mortgage Banks, and the Savings Banks has been estimated at almost £400,000,000 ;† this total does not include the sums lent on mortgage, mainly for specific purposes, by such institutions as Land Improvement Banks, Rent Charge Banks, &c. In the year 1900, it was calculated that in certain parts of Prussia the land debt amounted to as much as 62, and even 73 per cent. of the sale value of the land.‡

Herr Trosien, the State Commissioner to the Stock Exchange. Hanover, in a book dealing with agricultural credit,§ dwells upon the close connection between the rising mortgage debt of Prussia and the large increase in the working expenses of agriculture. The subdivision of land often gives rise, he states, to a situation in which none of the co-heirs has sufficient capital to carry on his farm, thus causing holdings to change hands to an increasing extent ; while the cost of farming in Germany is also complicated by the heavy mortgage debt which has burdened Prussia for generations past, so much so that it has generally been impossible to meet the increase in expenses even by entering into fresh mortgage contracts. Nearly four-fifths of the property of the large landowners and about nine-tenths of the property of the smaller owners consists of land, showing how little cash capital is readily available for the farming class. The debts of the largest owners are three-fifths greater than the capital held by them ; in the case of the smaller owners the debts are almost double the amount of their capital ; while the medium farmers have debts amounting to two and one-third times their assets in capital. In the 20 years from 1888 to 1908 the average excess of rural mortgages registered each year over those paid off has doubled, as compared with the average for the previous twenty years.

Rural debt lowest in Provinces of small holders.

774. The proportion of debt to the value of the property in land of farmers for the whole of Prussia has been estimated as over 31 per cent ; in Western Prussia it was 57 ; in Eastern Prussia 50, and in Pomerania 46 per cent. The lowest percentages were 12.6 in the Rhineland Province ; 13.9 in Hesse-Nassau, and 16 in Westphalia. It is worth noting that the mortgage debt is lowest in the Provinces of small holders and is there decreasing ; while it is heaviest and has increased very rapidly in the eastern and central Provinces, where large estates prevail.|| Herr G. Gotheim, a writer on German agriculture, states that " the increase of rural mortgages is, apart from the rising prices of land, to be ascribed to the enormous increase of live-stock, machinery and buildings. The increased number of animals required, the enlargement and increase of stables, which cost much money, and the greatly increased harvests required larger sheds and storehouses. . . . The small and medium-sized agricultural properties show, as a rule, a very small indebtedness, and the large agricultural properties a considerable indebtedness."¶ Probably the fact that the *Landschaften* and similar organisations until within the last generation admitted only large owners to membership accounts to some extent for this disparity, while the more frequent change of ownership in the case of large estates is another reason.

**Systems of Land Tenure in Various Countries.* (Cobden Club Essays), 1870, p. 207.

† See *Report upon Agricultural Credit and Co-operation in Germany*, p. VI.

‡ Article by M. E. Besson in *Journal de la Société de Statistique de Paris*, December, 1900 (p. 409).

§ *Der Landwirtschaftliche Kredit und seine durchgreifende Verbesserung.* Berlin, J. Springer, 1911.

|| For limitation on power of mortgaging land under the Prussian Act of 1906, see paras. 816-7.

¶ *Agrarpolitisches Handbuch*, pp. 16 and 304. (Quoted by Mr. J. Ellis Barker in letter on " Small Holdings in Germany," *Times*, 21st July, 1913.)

In the *Reports from Her Majesty's Representatives Abroad upon the position of Peasant Proprietors in the countries in which they reside*,* the memorandum upon Germany intimated that an inquiry held in 1882 showed that the burdens upon large estates exceeded those upon small estates in the proportion of 14 to 9. "This fact is explained by the official statement that, with the exception of the entailed estates, the large estates change hands on an average every thirteen years, whereas the middle-sized ones seldom do. . . . In general, the inquiries have shown that the owners of middle-sized estates are *not* overburdened with debt, and that their condition in this respect is better than that of the owners of large estates." Mr. H. W. Wolff writes that "in Germany . . . statistics show that the burden of mortgage debt is not nearly so great as is habitually represented."**

A Report furnished to the Foreign Office in 1906 in regard to small holdings in Bavaria,† states that "since most agricultural holdings in Bavaria are of middle and small size and freehold property, no necessity exists to promote their sub-division, or to facilitate either their purchase or their tenancy. The only drawback to a very tolerable state of things is the facility with which mortgages may be raised." After a reference to the complete registration of title system, the Report adds: "Hence more money is lent in Germany on agricultural holdings than in countries where the same system of mortgage does not obtain, but this ease with which money is raised very often entails difficulties, since agricultural profits, out of which the farmer must meet his liabilities, are modest, yet sub-hastations (forced sales) of agricultural holdings are not frequent in Bavaria, and from that fact it is deduced that the system of mortgage has no widespread evil consequences."

The existence of so many industrial establishments scattered over Germany on lands which are included under the heading of "rural" in the Tables is another factor tending to make the figures of rural indebtedness appear heavier than they are in reality.

Other illustrations could be furnished, if space permitted, of the complicated nature of mortgage credit problems, and of the need for taking into consideration varying local circumstances.

MORTGAGING BY THE PEASANT PROPRIETORS OF DENMARK.

775. The fact that Denmark is a small country of peasant proprietors, almost entirely dependent upon its agricultural industry, has caused frequent comparisons to be made between its conditions and those of Ireland. From a Report on Danish Agriculture published in 1911 by the State Statistical Bureau in Copenhagen,‡ it appears that the total mortgage debt upon agricultural land in Denmark is considerable. The number of mortgaged farms disposed of in the open market in the period 1905-9 was 12,092 out of 14,340 holdings sold. Thus no less than 84 per cent of the farms sold had mortgage burdens upon them, this proportion increasing from 79 per cent. in the case of the smallest holdings to 92 per cent. in the larger class of holding. The indebtedness of a given area of land has grown steadily since 1889. The proportion of the mortgage debt to the total sale price of the land was constant for many years at about 54 per cent. ; it fell some years ago to an average of 50 per cent., and now stands at about 47 per cent. § The Returns show that, as in the other countries already referred to, the burden is relatively lowest on the smaller holdings.

A recent writer on the agriculture of Denmark states:—"Most Danish landowners, rich or poor, seem to obtain working capital on the security of their land, encouraged thereto doubtless by the comparatively cheap rate at which such loans can be raised. I have no information as to the extent to which real property is mortgaged in Great Britain, and doubt whether any is available. If it were, it might be discovered that our land is on the whole as heavily burdened with debt as that in Denmark. Only there is this difference between the British and the Danish charges. The former involve the payment of an interest as high, or often higher than the latter, and do not include any provision for sinking fund. Nor in Denmark can the advances suddenly be called in to the great inconvenience and expense of the borrower, who in such circumstances will certainly be faced with a lawyer's bill. It is easy therefore to form a too pessimistic conclusion as to the indebtedness of the Danish landowner when compared with that of the landowner at home." ||

See also para. 824.

* C. 6250-1891.

** *Co-operative Banking* (H. W. Wolff, 1907), p. 223.

† See Appendices to Minutes of Evidence of Small Holdings Committee, 1906, [Cd. 3278], p. 439.

‡ *Landbrugsforhold i Danmark siden Midten af det 19. Aarhundrede*.

§ See *Tidsskrift for Landøkonomi*, April, 1914, p. 288.

|| See *Rural Denmark and its Lessons*. (H. Rider Haggard, 1911), p. 177-78.

Report of Recess Committee upon Danish rural indebtedness.

776. From the Memorandum upon "Agricultural Organization and State Aid to Agriculture in Denmark," furnished by our colleague, Mr. Gill, for the Report of the Recess Committee in 1895, it is plain that the pressure of indebtedness was at that time heavily felt by the Danish farmers. Mr. Gill, after referring to the land system of Denmark, wrote: "The transference of land, however, has not been without its drawbacks. Purchase by the tenants was not facilitated by the establishment of any State fund or guarantee of credit, but by the starting of a number of private companies, or associations, on the *Crédit Foncier* system (whose rules, however, must be approved by the Government) for the granting of loans on landed property on the principal of amortization by instalments. These companies take mortgage up to 50 per cent. and occasionally 60 per cent. of the estimated value of the property, and the amortization instalments are arranged so that the payment of principal with interest extends over fifty years. As these companies were established in 1851, it follows that a great proportion of the holdings of the Danish peasant proprietors are still under mortgages; and as land in Denmark, like land everywhere else in Europe, has suffered from the fall in values of the past twenty years,* these mortgages are now felt to be a heavy burden, and the rate of interest charged by the land banks is asserted by many agriculturists to be too high. Danish politics have consequently of recent years been agitated by an agrarian party, which demands the establishment of agricultural credit institutions, with assistance and guarantee from the State, to take over these mortgages and re-issue them on easier terms."

Report of Deputation sent to Denmark by Department of Agriculture in 1902.

777. In dealing with the same subject, the Report of the Deputation sent to Denmark in 1902 by the Department of Agriculture for Ireland states:—"The interest and repayment of these loans are still a very heavy drag upon the farmers; but at the same time they are cheerfully borne for the following reasons:—The farmer feels, if he is a young man, that he will one day benefit by having no further instalments or interest to pay, and practically the whole of the profit from his farming will be for his own use; secondly, the load is carried lightly, seeing that he takes a more than intelligent interest in his farm, and so works the land and attends to his stock, that they produce more profit, thus giving him about the same amount more in profit for his own use, as he would have to pay in repayment of loan interest and taxes. Again, if he has a son, he feels happy in the reflection that he has paid off so many instalments that when his son succeeds he will in all probability come into the full enjoyment of absolute ownership."†

Report of Scotch Commission on Agriculture which visited Denmark in 1904.

778. The Report of the Scottish Commission on Agriculture which visited Denmark in 1904, after referring to the changes in the mortgage burden upon land in Denmark, states that:—"In very few instances can the cause of debt be attributed to the fact that the owner has been living beyond his means. The chief reason should rather be ascribed to the above circumstances: the rise in the value of land necessitating a larger purchase price, and consequently, as a portion of this is almost invariably allowed to lie as a mortgage on the estate, an increase of debt on the estate in proportion to its value. Inherited properties burdened with provisions to the younger members of a family have been affected in the same way. At the first glance it would seem that this indebtedness is abnormally high, but, on further consideration, it is doubtful if it exceeds that which at present exists in our own country."‡

The Danish Minister of Agriculture, during the debates in 1909 upon the Bill for the formation of an Agricultural Commission to study, amongst other subjects, the rural credit of that country, stated that "by credit being made accessible to all, indebtedness had progressively increased to an extent which threatened to become a real danger for freehold property."§

* *Report of Recess Committee* (Reprinted, 1906), pp. 144-5. The price of land in Denmark more than trebled between the years 1845 and 1881; it then fell until 1899, when it again commenced to rise, and now stands at its highest recorded figure. (See *Landbrugsforhold i Danmark*, etc., p. 149.)

† See *Report on Co-operative Agriculture and Rural Conditions in Denmark*, pp. 122-123. On the other hand, Mr. E. A. Pratt (*The Transition in Agriculture*) says: "The Danish farmers became 'peasant proprietors,' but it is doubtful if they have derived much benefit from the change of system. Interest and repayment of principal still constitute a heavy burden, and many a Danish farmer is, with all his family, working for long hours, and looking to England for the profits he makes on his produce, not so much for his own gain as to satisfy the demands of his German creditors," (pp. 240-1). Mr. Pratt quotes Danish writers in support of this view. ("Small Holders," pp. 33-34).

‡ See *Farming in Denmark, Rural Education, Peasant Proprietorship, Dairying, Co-operation, as seen in successful practice by the Scottish Agricultural Commission of 1904*, pp. 42, 43.

§ *Bulletin of the Bureau of Econ. and Soc. Intelligence* (Rome), August, 1911, p. 210.

We think there can be little doubt but that, on the whole, Denmark is one of the countries most heavily burdened with rural debt. That it should at the same time hold a high place, reckoning national wealth per head of population—coming indeed next to England, according to Mulhall's Statistics—proves what an effective system of education, combined with the co-operative organisation of the farmers, and wisely-administered State aid to agriculture, can accomplish in spite of difficulties.

MORTGAGING IN THE UNITED STATES.

779. Although the United States is not a country of small holders, yet over 35 per cent. of the farms were, at the 1910 Census, under 50 acres in size, while 58 per cent. were under 100 acres. It is of interest, therefore, to glance at the facts as to its mortgage indebtedness. In the year mentioned 62 per cent. of the farms were cultivated by their owners, 37 per cent. by tenants, and 1 per cent. by hired managers. The percentage of tenanted farms has increased at each census: in the year 1880, only 25·6 per cent. of all the farms were held by tenants. One-third of all the farms regarding which mortgage reports were obtained were found to be mortgaged. The Census Abstract* points out that "in making comparisons between geographic divisions and between censuses, it should be borne in mind that the fact of mortgage indebtedness is not necessarily an indication of lack of prosperity. There can be no question but that American farmers generally were more prosperous in 1910 than at the two preceding censuses, and yet in that year a larger proportion of the farms were mortgaged. The proportion of mortgage indebtedness is higher in Iowa and Wisconsin than in any of the other States, and yet these States are among the most prosperous in agriculture. Although in some cases mortgages are placed on farms because of poor crops or other misfortunes or because of mismanagement, they often represent an unpaid portion of the cost of the farm itself or money expended for additional land or for buildings and other equipment. The most conspicuous increase in the proportion of farms mortgaged has been in the three southern divisions, and it is very likely that increased confidence of lenders in the titles to land and in the ability of the farmers to pay their debts has had much to do with this change."

We observe that the total of rural indebtedness in the United States amounted to 27 per cent. of the value of the farm land and buildings, a marked decrease in the relative importance of mortgage debt, as compared with 1890, due primarily to the rapid increase in the value of farm land. The average duration of farm mortgages in the United States is five years. Enquiries in 1890 showed that over 80 per cent. of the mortgages in force were incurred for the purchase of land or for its improvement, only 5·4 per cent being for farm and family expenses. In referring to these figures, Dr. Taylor, Professor of Agricultural Economics in Wisconsin University, writes:—"When we consider the mortgage in all of its relations it is apparent that this is one of the important means of acquiring landownership; and while it sometimes proves disastrous, it is practically indispensable in our rural organisation, and on the whole it may be looked upon as an institution friendly to the interests of the farmers."†

The small proportion of mortgaging which takes place in the United States to meet the farmer's current expenditure is further proof of the unsuitability of real credit organisations for dealing with requirements of this nature. These requirements are, however, amongst the most important, as we have shown, in the agricultural economy of Ireland.

CONCLUSIONS IN REGARD TO MORTGAGING BY SMALL LANDOWNERS.

780. The figures which we have quoted as to the incidence of mortgage burdens on the land in a few of the chief Continental countries where small holdings are numerous will suffice to make clear that no generalisation of wide application can safely be made upon the subject. The figures also prove, we think, that heavy as the mortgage burden undoubtedly is in many instances, there has been a tendency to exaggerate as to the comparative extent to which small peasant proprietors have charged their holdings with an undue load of indebtedness. The liability to over-mortgage is admittedly great, and is one to be carefully guarded against; but the published facts would seem to show that, on the whole, the evil is not any greater, and is often less, in the case of small and medium peasant proprietors than amongst the larger classes of landholder. Large

**Abstract of the Thirteenth Census of the United States (1910)*, pp. 292-5.

†*An Introduction to the Study of Agricultural Economics*. H. C. Taylor, Ph.D. (1912), p. 224.

holdings are as a rule more easily negotiable as mortgage security than smaller areas of land ; but this consideration would not alone appear to account for the relative proportions of indebtedness on the two classes of holding.* It must also not be forgotten that a large proportion of the debt incurred has been for the purchase of land, and that the interest paid on the mortgage by the farmer is therefore merely the equivalent in many cases of ordinary rent, and is an obligation which will after a time disappear.

Possibility of obtaining possession of land at too great a cost in mortgage burden.

781. That mortgaging for the raising of funds to purchase land is a process which may leave an exceedingly heavy load on the shoulders of the farmer is seen from the case of Switzerland, where, with many credit facilities, the agriculturist is often deeply burdened with debt. "Borrowing has now been rendered easy for him, too easy indeed, perhaps ; for the indebtedness on the land cannot go on increasing, as it has been doing for the last thirty years, without seriously endangering his position. The origin of the evil lies undoubtedly in the fact that the peasant proprietor, as a general rule, obtains possession of his holding at too great a cost, and exhausts the greater part of his credit in the process. He thus has to commence farming without a sufficient working capital, and with no reserve fund on which to fall back in bad years. Professor Kraemer, referring to the indebtedness of the peasant proprietors in a treatise published in 1886, points out that it is only in exceptional cases that holdings, purchased and worked on credit, can clear off their indebtedness by what they produce."†

Fortunately the farmers of Ireland, who under the Land Purchase Acts are enabled to purchase their holdings by means of State advances, are much less likely than their fellows in Continental countries to experience the necessity of resorting on any considerable scale to mortgaging for the purpose of acquiring land.

COMPULSORY REGISTRATION OF TITLE INDISPENSABLE FOR SATISFACTORY MORTGAGE SYSTEM.

782. A study of the land credit institutions of the continent makes it evident that the foundation of these systems is a well-organised scheme of compulsory registration of Title, or at any rate of Deeds, combined with satisfactory mortgage legislation. In Germany, Austria-Hungary, Russia, Australia, some provinces of Canada, &c., compulsory registration of title exists, while in many other countries, such as Belgium, France, Holland, British India and America, is found compulsory registration of deeds. It needs no argument to make evident that obligatory registration of this sort is a *sine qua non*, if agriculturists are to be in a position readily to obtain credit, whether by the agency of land debentures or otherwise, upon the security of their holdings. Without such ready means of ascertaining prior charges upon land offered as security for advances, creditors can never treat real property as a first-class security in the open market. "The organisation of institutional mortgage credit in Germany has been immensely facilitated by the complete system of registration of title in that country. The uniform system, based on the Prussian model and introduced for the Empire in 1900, provides for obligatory registration of title, priority of each registered charge in the order of its registration, and freedom of inspection of the registers. These registers, drawn up for small areas and maintained by them, describe each estate and recite all personal charges (*e.g.*, usufructuary rights) and other charges ; and, in general, no claims against such estates not duly registered are valid in a court of law. It may be added that the total costs in connexion with the registration or cancellation of mortgages are moderate. The Registration of a mortgage charge for £500 in Prussia costs £2, and its cancellation half that amount, including in each case the notarial and court fees."‡

783. The importance of a sound system of registration of title in relation to rural credit is being increasingly recognised, we note, in the United States. A recent American writer on the subject points out that the uniform and safe system of title registration in Germany, which has enabled farm mortgaging in that country to become a "gilt-edged security, holding its own even more persistently than Government bonds themselves, and selling at par when Government bonds are listed at a discount" cannot be introduced into the United States "until many of the States revise their land-title laws. But much progress in this direction already has been made by the work of the committee on

* The question of the extent to which holdings of various sizes are mortgaged in Ireland is dealt with in paras. 797-811 and in Appendices 14-17 to Minutes of Evidence, pp. 542-7.

† *Reports of Her Majesty's Representatives Abroad on the Position of Peasant Proprietors in the Countries in which they reside.* (Cd. 6250). 1891 : p. 71.

‡ *Report on Agricultural Credit and Co-operation in Germany*, p. XII.

uniform laws of the American Bar Association, and the Fletcher bill provides for hastening the day of uniform title registration by providing that no mortgage loans can be made in States where title law does not measure up to the national standard.*

ORIGIN OF REGISTRATION OF TITLE IN IRELAND.

784. We shall now examine the information obtained during our Inquiry in regard to the extent and nature of the mortgaging of land in Ireland; and consider its bearing upon the problems of rural credit in this country.

6605-96.

Your Committee had the advantage of receiving evidence from Mr. F. H. Browning, B.L., Examiner of Titles in the Land Registry of Ireland, whose book "*Registration of Title in Ireland*" is a standard work on the subject. In the introduction to this volume it is pointed out that, broadly speaking, there are three possible systems of dealing with the transfer of land and the burdens affecting land, viz.: (1) by no registration; (2) by registration of deeds; (3) by registration of title. In England, registration of deeds is found in Middlesex and Yorkshire, and registration of title in London. The *Land Transfer Act* of 1897 (60 & 61 Vict. c. 65), introduced the element of compulsory registration, and marked a step in advance. Ireland is, therefore, much ahead of England in this matter. In Scotland there is a Register of Sasines, resembling a Register of Deeds; its "search sheet" (or ledger account of the dealings with each unit of property) approximates, however, to a Register of Titles.† In contrast to the position of Great Britain, registration of title has long been successfully at work, as above indicated, in some of the most important European countries, and has been adopted in some British colonies.

Since the year 1708, when the Registry of Deeds was established by 6 Anne, c. 2, a system of registration of assurances operated in Ireland, but no effort appears to have been made to introduce registration of title until 1865, when the *Record of Title (Ireland) Act*, 28 & 29 Vict. c. 88, established the Record of Title under the control of the Landed Estates Court, and provided for the recording of titles under Land Judges' conveyances. This Act also removed from the operation of the Registry of Deeds all land of which the title had been recorded. This system was a voluntary one and was little appreciated, leading to the registration of only 800 titles.

Land Purchase Acts rendered registry of title essential.

785. It became evident that the passing of the Land Purchase Acts rendered absolutely essential the keeping of an efficient register of title, for a yearly tenant or short leaseholder was outside the scope of the Registry of Deeds, his only register of title being the records in the estate agent's books. On his becoming owner in fee-simple he incurred the liability to registration in the Registry of Deeds of practically every document dealing with his land, in order to secure priority for the various charges. This would naturally have been very expensive for the tenant-purchaser, apart from the desirability of having a Register in which the titles could be kept entered up to date and guaranteed, as in Continental systems. Such was the origin of the passing of the *Local Registration of Title (Ireland) Act*, 1891 (54 and 55 Vict., Ch. 66), usually known as "Madden's Act," which set up a Registry of Title office for Ireland, and merged in it the Record of Title. A system of registration of title has thus been established, the adoption of which is compulsory as regards State-aided tenant-purchasers, but is voluntary as regards other owners of land.

Difference between Registration of Deeds and of Title.

786. The question of registration of title has so important a bearing upon real credit in Ireland, and so much confusion often exists as to the nature of the difference in functions between the Land Registry Office and the Registry of Deeds, that we think it well to quote here the clear explanation given in the work above referred to:—

"In the Registry of Deeds any document relating to land may be registered. This is done by the filing of a memorial which need contain only certain information as to the contents and nature of the document, the document itself being returned. All memorials are filed and indexed as received, no attempt being made to classify them as dealing with any particular property.

"This mode of registration affords certain security to purchasers and mortgagees, and is of value in fixing priority. It does not, however, amount to notice of the document, nor does it, except in the case of a judgment mortgage, add any validity to the document itself, or to the title of which it forms a part.

* *Rural Credits* (F. J. Haskin). Senate Document, No. 260 (1913), p. 18

† *Registration of Title in Ireland*, Second Edition (Browning and Smith), p. 2 *et seq.*

"On each and every transaction with any land the title must be fully investigated, and every document considered as to its validity, construction, and legal effect. Searches must then be made in the Registry of Deeds, to see that no document has been omitted; and even when the title has been accepted, there is no guarantee of its correctness other than the skill of the legal advisers of the parties."

"What, then, is a Register of Title?"

"A Register of title is, essentially, a list of owners of land, with particulars of the properties owned, and of the charges and restrictions affecting them. Legal validity is given to this list by Act of Parliament, and it is kept constantly up to date by the entry of all changes affecting any of its component parts. The register is conclusive as to the title shown therein; and persons dealing therewith are protected against fraud or mistake by an Insurance Fund."*

This Insurance Fund, we are informed, amounted in December, 1913, to about £26,000; it is raised by means of insurance fees payable on registered transactions relating to land, and is vested in two trustees.†. If any mistake is made by the Registry of Titles, or if forgery or fraud occur, a person who actually loses thereby can make a claim against the Fund. Only one person has, we understand, hitherto made a claim, this claim being duly established.

Leading principles of Irish system of registration of title to land.

787. The following are the leading principles of the Irish system of registration of title: (1) Any one wishing to deal with registered land can obtain direct and up-to-date information as to the ownership of the land and any burdens upon it; (2) the register itself is conclusive evidence, and renders needless any reference to documents, while the Insurance Fund, guaranteed by the State, affords protection against possible error on the part of the Land Registry; (3) a Land Certificate or Certificate of Charge can be obtained, if desired, as evidence of ownership or of charge; (4) the cost of transactions in land is lessened by the use of simple forms; (5) registration is compulsory in the case of State-aided purchasers, and is open to all other owners voluntarily; (6) the Law of devolution of registered land on intestacy is, in certain cases, assimilated to that of personal estate.‡

REGISTRATION OF TITLE SUBJECT TO EQUITIES.

788. The conclusive title afforded by registration is subject, however, to certain burdens which affect the land though not registered as such. The most important of these burdens are the rights or equities arising from the interest acquired by a purchaser under the Land Purchase Acts being a graft on any prior interest he may have had in the land. Should the registration be subject to these equities, a note to that effect is made in the Register. Should this note not appear, or be shown to be cancelled, it is assumed that the title to the prior interest has been investigated, and that the registration is free from these equities. Certain rights, chiefly burdens in favour of Government Departments, and easements and tenancies which are matters of local knowledge, are protected without registration§

We understand that it is within the discretion of the Registrar to dispense with the examination of the title to previous interest, but that he usually requires some valid reason for doing so, such as heavy expense entailed by investigation in the case of small holdings, probable delay in urgent cases, or the virtual impossibility of removing technical flaws which the lapse of time would in any event ultimately remedy. The rights of persons interested in the tenancy who may have emigrated or gone to other districts inevitably give rise at times to considerable difficulties. Even if the Registrar dispenses with the investigation of previous interest, he must nevertheless ascertain and enter on the Register all burdens which have arisen since the tenant acquired the landlord's interest, but prior to first registration. It is clear, therefore, that in every case the entry in the Register is conclusive proof of the title of the owner from the date of the vesting or conveyance of the land.

Desirability of discharging Equities.

789. Seeing that the effect of registration subject to equities is to prevent such title being accepted by a purchaser or lender until an investigation of the title to an earlier tenancy has been made, it is plain that if the security of his land is with reasonable facility

* *ibid.*, pp. 3, 4. For an account of the limited nature of the protection afforded to purchasers by the present system of registration of deeds, see *Madden on Registration of Deeds*, 2nd Edition, pp. 7, 8.
 † Sections 92 and 93 of *Local Registration of Title (Ireland), Act, 1891* (54 and 55 Vic., ch. 66.)
 ‡ The trustees are the Chief Crown Solicitor and the Treasury Remembrancer in Ireland.
 § *Registration of Title in Ireland*, p. 4, *et seq.*
 § Sections 29 and 47 of Act of 1891.

to be utilised by a tenant purchaser in obtaining capital or credit, the final discharge of equities at as early a date as possible is highly desirable. We have pointed out elsewhere how greatly restricted in operation some of the lending schemes of the Board of Works and the Congested Districts Board have been, owing to difficulties connected with the title of the would-be borrowers. We fully recognise the dangers attached to over-borrowing on mortgage security, and the necessity for safeguards against such undue indebtedness. But this consideration does not affect the strong arguments in favour of having all titles to Irish land clearly ascertainable, and the rights and equities, if any, which exist, plainly defined in order of priority, so that in suitable cases—where borrowing on the security of their holdings may be the most beneficial, or indeed the only, method of obtaining needed funds—farmers may not find themselves unduly handicapped by difficulties of title, as undoubtedly are at present.

Legislation proposed in 1903 to facilitate Discharge of Equities.

790. In dealing with the question of equities, Mr. F. H. Browning, B.L., pointed out in his evidence that the Land Registry at one time thought of sending a small Commission into various districts in Ireland and investigating titles on the spot. This Commission, he suggested, might advertise the fact that it was going to sit to investigate titles, and might make a provisional discharge of equities, leaving the matter open for six months. "The great difficulty with these titles is the people in America. A man will die, leaving a lot of children, and some of them are in America. Generally speaking they don't want to make a claim, but we cannot ignore them."

It seems that in the year 1903, a Bill was drafted by the Land Registry authorities in Ireland, with a view to carrying out certain amendments in the *Local Registration of Title Act* of 1891. The measure, however, was not proceeded with in the House of Commons. In regard to the question of equities, this Bill proposed that if, after the expiration of six years from the registration of a title to land as being subject to rights or equities, an application were to be made for the registration of any dealing with the land (save in the case of a judgment mortgage), the Registrar should note such application on the Register, and issue such notices as he might think expedient to persons who might be interested in the enforcement of any right or equity. If after the expiry of the time mentioned in the notice, he received no claim or objection, he should cancel the note as to equities, which would thenceforth be of no effect. If, however, a claim founded on a right or equity were to come to the notice of the Registrar during the period mentioned in the notice, he should serve notice thereof on the registered owner, with a view to proceedings being taken to ascertain and note on the Register any burdens the ascertainment of which may have been dispensed with at the original registration of the land. Should such proceedings result in the ascertainment of all rights and equities, the note as to equities should be cancelled.

It was also proposed in the Bill to empower any person, who appeared to the Registrar to be sufficiently interested in the land affected, to apply (after due notice to the owner) to have the burdens on the land ascertained, and the note as to equities discharged. In order to expedite the process of clearing off equities, it was proposed that the Lord Lieutenant might by Order in Council prescribe certain areas in which the ascertainment of rights or equities should be locally carried out by qualified persons, under the control of the Registrar of Titles.

There is little doubt, we think, but that if the above Bill, or one on similar lines, had become law, the process of discharging equities would have been considerably hastened. We note that the Chief Secretary for Ireland, in reply to a question last year in the House of Commons, stated that the registration in the Irish Land Registry Office of a transaction takes about one month, and that the time taken for the discharge of equities in particular cases varies from one month to a year according to circumstances.*

Transfer of Equities to a tenant's new holding.

791. The Land Act of 1909 (Section 23 (2)) enacted that in the case of any tenant on estates purchased by the Land Commission or Congested Districts Board, for whom a new holding is provided, all equities affecting his original holding, should without any conveyance be attached to his new holding. This provision has much facilitated the work of re-arrangement of estates, for the tenants often found it impossible to make title to their holdings, which had passed

See paras. 664, 688, 705.

F. H. Browning, 6652.

* *Parliamentary Debates* (House of Commons), 8th July, 1913.

from one member of the family to another for generations, sometimes with no legal formalities. The Congested Districts Board in a recent Report stated: "As a rule the tenant purchasers are quite willing to comply with the Board's conditions, but some of them are unable to make good title, while in the great majority of cases the cost of making title is prohibitive, apart from the delay involved; the cost frequently amounting to a very substantial proportion of the entire value of the holding."* The Board expressed regret that similar facilities were not attached to the transfer of equities of *tenant-purchasers'* holdings, so as to assist the work of consolidation and enlargement. In several of their Reports the Board have recommended that the law should be amended in this respect.

We refer to this aspect of the subject as a further proof of the varying ways in which the present position in regard to the discharge of equities in Ireland has an adverse effect upon the interests of the new peasant proprietors, hindering both the process of their establishment upon the land, and the advance to them of long-term loans upon real security.

Equities discharged after expiration of 12 years from Sale for full consideration.

792. A provision which facilitates the progress of the discharge of equities is included in the Orders of the Land Registry. This Order states that "where a sale of lands was made to the applicant or a predecessor in title at a date not less than twelve years prior to the lodgment of the application, and appears to have been for full consideration, the title may begin with the conveyance executed on, or other evidence of, such sale, and, where such a sale took place prior to the acquisition of the landlord's interest, the title shall be deduced to the date of such acquisition."† The Registrar is empowered, also, when a title has been registered for over twelve years, and a sale (other than the sale from landlord to tenant) has taken place not less than twelve years ago, to dispense, if he think fit, with any evidence of title other than an affidavit in the prescribed form, signed by the owner of the land, to the effect that no charge has been made against the land save those set forth in the Register.

The assumption underlying these provisions is that if there had been any outstanding claim against the land, such claim would have been realised or met within twelve years of the sale in question. As the "equity" note covers only transactions prior to the date of acquiring the fee, it is necessary only to show title up to that date in order to discharge the note (the title to all registered land is, as we have shown, guaranteed from the date of the acquisition of the fee). It is evident that with the lapse of time an increasing number of cases of tenant-purchasers must fall within the terms of the above provisions, which will do much to hasten the completion of the all-important task of clearing titles to land in Ireland.

Para. 788.

EXTREME DESIRABILITY OF HASTENING THE DISCHARGE OF EQUITIES, IN THE INTERESTS OF RURAL CREDIT.

793. There seems no reason to doubt but that the Land Registry Office proceeds, on the whole, as quickly as possible with the tedious work of investigating and discharging equities; but it is evident that some much more expeditious and more widely applicable method than that at present in force is essential, if the task is to be accomplished at a reasonably near date. We do not feel competent to make suggestions as to the precise methods which would seem to offer the best prospects of success in a technical matter of this sort, involving legal questions; but we would strongly urge the importance in the interests of the development of real credit in Ireland of putting into operation some improved and more speedy method of removing imperfections from the titles of the tenant-purchasers under the Land Acts. We believe that such a scheme should be carefully considered, with a view to obtaining at the first suitable opportunity any legislation which may be found necessary.

* *Nineteenth Report of the Congested Districts Board*, Cd. 5712-1911, p. 21.

† *Acts, Orders and Rules, Land Registry of Ireland*, p. 78, (Order V., par. 3), 1910.

TOTAL NUMBER OF HOLDINGS AND OF REGISTERED HOLDINGS IN IRELAND.

F. H. Browning,
6611

794. The process of registering holdings is steadily progressing as the land of Ireland passes into the hands of tenant purchasers. The following Table gives the total number of holdings in the country, the number of these which have been registered, and the charges registered for each of the past seven years (in the year 1901 there were only 43,000 registered titles in existence).

Year.	Total No. of Holdings.	No. in Column 1 owned.	No. in Column 1 tenanted.	No. of Registered Holdings.	No. of Charges Registered.	Percentage of Registered Holdings charged.
1907	599,872	230,421	369,451	112,437	1,709	1.5
1908	601,765	277,862	323,903	122,621	2,084	1.7
1909	603,827	337,295	266,532	136,508	2,345	1.7
1910	605,896	350,794	255,102	150,480	2,480	1.7
1911	607,960	389,751	218,209	165,127	2,851	1.6
1912	608,796	399,644	209,152	198,049	3,468	1.7
1913	608,074	401,819	206,255	219,871	3,965	1.8

It will be seen that out of the total agricultural holdings in Ireland, over 36 per cent. are registered ; and that of the holdings which are owned by the occupiers, over one-half are on the Register. Of the registered holdings, an average of 1.7 per cent. each year have charges placed upon them. We were informed that although the causes for borrowing do not always appear, charges are most frequently created in connection with family settlements, legacies, unpaid purchase money, and the buying of seed, &c., in the spring months.

Returns of Charges on Registered Land for three months of 1912.

795. In view of the important bearing of the subject of mortgaging upon our Inquiry, and seeing that hitherto little published information in reference thereto has been available, your Committee have endeavoured to ascertain as far as possible the extent to which Irish farmers charge or mortgage their land, the purposes for which such charges are usually incurred, and the persons or organisations in whose favour the charges were created.

We are glad to state that the Land Registry Office found it possible to supply full Returns for the months of April, May, and June, 1912, of all the charges registered during that period on registered land in Ireland, and also the releases registered during these same months ; giving separately the particulars for each county, and distinguishing the size of the holdings affected, and the nature of the charges (so far as ascertainable), *i.e.*, whether they were legacies, family charges, judgment mortgages, &c. The Returns also indicate, as far as known, the nature of the creditor, *i.e.*, whether ordinary creditor, Bank, Land Commission, &c. Summaries of these valuable Returns will be found in the Appendices.*

Although these figures deal only with three months of a particular year, they are important as a useful index of the extent to which mortgaging takes place amongst the tenant purchasers under the Land Acts. It must be borne in mind that these charges refer only to transactions dealing with *registered* land, and do not include the charging carried out in connection with *unregistered* holdings,† which are, as shown above, at present almost twice as numerous as registered holdings ; nor do they include charges placed upon registered land in connection with the Land Loans of the Board of Works.

* See Appendix 14 to Minutes of Evidence, pp. 542-4.

† We endeavour elsewhere to estimate, from figures supplied us by the Registry of Deeds, the extent to which charges are created in respect of unregistered land (see paras. 806-810, and Appendices 15 and 16 to Minutes of Evidence).

Desirability of complete and easily available records of all charging transactions on Irish Land.

796. The above-mentioned Returns have entailed much time and trouble in their preparation, as this necessitated a separate handling and inspection of each document of charge. We are grateful to the Registrar and his staff for the pains they took to furnish the information sought. If it were feasible to devise a scheme by which valuable information of this sort could be kept up to date and summarised in a readily accessible form, thus obviating a troublesome searching and reading of separate documents on each occasion, we believe such a course would be eminently desirable. By this means the annual additions to and releases of the mortgage debt of the whole country could be estimated approximately; while in process of time it would be possible to say, with a fair approach to accuracy, what the total mortgage and other burdens on the land of Ireland amounted to.

We are therefore of opinion that every reasonable step should be taken to make readily accessible, not only particulars of the various mortgage and similar transactions in regard to each individual holding—and much has in recent years been done in this direction—but also the total transactions of charge and release effected annually. The extreme usefulness for the purposes of our Inquiry of even the limited Returns furnished has served to impress us all the more with the great desirability of complete records of this nature being made available.

Estimated fresh charges on registered land in Ireland in 1913. £857,000.

797. It will be observed that during April, May and June of the year 1912, 725 separate charging transactions took place in connection with registered land in Ireland, affecting 567 separate holdings. The total amount of the charges registered was £156,760. Taking these three months as fairly representative in this respect, the figures would mean that 2,900 transactions, entailing total charges amounting to £627,000 (leaving aside for the moment the question of charges released) took place in connection with registered land in this country in the year 1912. These figures are, however, considerably under the mark, for the continuous annual increase in the number of holdings registered must bring with it an augmentation of the number of charges on registered land (which would be on the other hand to some extent counterbalanced by a probable decrease in the figures for unregistered land). As a matter of fact, the number of charges registered in the twelve months of 1912 on registered land was, as shown above, 3,468: proving that the rate of mortgaging in April, May, and June was considerably under the average for that year.* We are not aware of the total value of these 3,468 charges, but assuming that the individual transactions were approximately on the same scale as those of the three months for which information is available, the total fresh burden for the year would amount to over £750,000.†

Para. 794.

If the releases of charges on registered land be assumed to have increased in the same proportion as the creating of fresh charges, the net burden of debt placed on registered land in Ireland in 1912 was approximately £340,000, entailing on the farmers annual payments in interest alone of, say, from £17,000 to £25,000.

See paras. 804-5

The approximate figures for the year 1913 would show an estimated additional gross burden of £857,000 on registered land in Ireland: while the estimated net increase, as we show later on, would be about £400,000.†

Areas of Registered Holdings Charged.

798. Dealing with the size of the holdings affected by the above operations, we find that of the 725 charging transactions in April, May, and June, 1912—

328 (or 45·25 per cent.)	dealt with holdings under 30 acres in extent.
277 (or 38·2 per cent.)	„ „ 30 and 100 acres in extent.
82 (or 11·3 per cent.)	„ „ 100 and 200 acres in extent.
38 (or 5·25 per cent.)	„ „ above 200 acres in extent.

The larger number, therefore, of these charges were in the case of the smaller sized holdings, almost one-half of the operations affecting holdings of under 30 acres in extent.

* In the year 1913, the number of charging transactions on registered land had further risen to 3,965 (see Table in para. 794).

† Not including charges upon registered land in connection with Board of Works Land Loan schemes, which would amount at least to £50,000 per annum (see paras. 665, 803, and footnote on p. 351.)

Purposes for which landholders charge their farms.

799. While the precise nature of the objects for which the farmers in question charged their land has not always been ascertainable, the following figures which we have obtained by an analysis of the information supplied to us for April, May and June, 1912, by the Land Registry are of interest.

Nature of Charge.	Number of Transactions.	Amount.
		£
Ordinary charge for money lent ...	420 (or 58 per cent.) ...	106,445 (or 67·9 per cent.)
Legacy charges	114 („ 16 „) ...	13,565 („ 8·6 „)
Family charges	137 („ 19 „) ...	30,057 („ 19·2 „)
“ Judgment ” mortgages * ...	54 („ 7 „) ...	6,693 („ 4·3 „)
	725	£156,760

RELATIVE EXTENT OF MORTGAGING IN THE VARIOUS IRISH COUNTIES.

800. The counties of Ireland in which charges on registered holdings were most frequent† during the three months in question, were :—

County.	Number of Charges.
Antrim	71
Londonderry	70
Cork	49
Down	41
Tyrone	43
Armagh	41

The counties where the fewest charges† were created were :—

County.	Number of Charges.
Galway	7
Kilkenny	7
Leitrim	7
Cavan	5
King's County	5
Clare	2
Wicklow	1

Taking into account the total *value* of the charges, as distinct from their number, the counties showing the largest amounts† were :—

County.	Amount of Charges. £
Antrim	14,620
Louth	10,695
Tipperary	10,218
Cork	9,885
Limerick	9,804
Meath	9,185

It will be seen that by thus taking the total *value* of the charges instead of their *number*, three counties (Tipperary, Limerick, and Meath) possessing a considerable proportion of large holdings are brought into prominence.

* See paragraphs 825-9 for description of a “ judgment ” mortgage.
† It must be recollected, however, that the figures here quoted do not include the charges upon registered land in connection with the Board of Works' Land Loan schemes (see paras. 669 and 803), which are much more frequently incurred in Leinster and Munster than in Ulster and Connaught. The counties which placed the greatest number of charges upon the land for this purpose in 1913 were (in order):— Tipperary, Limerick, Cork, Kilkenny, Clare and Wexford.

The counties showing the smallest total amount* (as distinct from number), of charges on the land were :—

County.	Amount. £
Cavan	1,775
King's County	1,706
Kerry	902
Wicklow	738
Leitrim	550
Clare	65

No direct relation between area of counties, or number of holdings in them, and the amount of charging of land which takes place.

801. By a comparison of the above figures with those showing the relative areas of the counties of Ireland, and with the figures giving the number of separate holdings in each county, it is clear that the proportionate amount of mortgaging has little relation to either the area or the number of farms. Thus County Antrim, which had the largest burden of mortgage debt placed upon it in the period referred to, is the ninth Irish county in respect of size, and the thirteenth in respect of the number of holdings. County Galway, on the other hand, which is the second largest county, and also takes second place in respect of the number of farms, is one of the counties where least mortgaging takes place.

We have also tried to ascertain if the number of proprietors in a county as compared with the number of tenants had any apparent influence upon the extent to which its farmers resorted to mortgaging. Here again no direct connection appears, for some of the counties, such as Donegal and Galway, where a large number of holdings have been sold to tenant-purchasers, reveal a comparatively limited amount of charges on the land. The limitation in the Land Act of 1903 upon the powers of charging is probably one cause of this.

See paras. 813-822.

From the Return furnished us by the Land Commission as to the number of applications received for permission to charge holdings in excess of the above-mentioned statutory limit, we have received useful corroboration of the information independently obtained from the Land Registry as to the comparative amount of indebtedness placed on the land in each county. The counties from which the most numerous applications were received by the Land Commission, between the years 1903 to 1913, for permission to exceed the limit were in order :—Down, Londonderry, Mayo, Cork, Tyrone and Antrim ; while the counties showing the greatest number of actual charging transactions in the months of April, May and June, 1912, as furnished by the Land Registry, were Antrim, Londonderry, Cork, Down, Tyrone and Armagh : *i.e.*, the names in each list are, with one exception, identical. Much of the verbal evidence received at our Inquiry similarly substantiates the information contained in these Returns.

See Appendix 17.

RELATIVE EXTENT OF MORTGAGING IN THE IRISH PROVINCES.

802. The following figures show the relative extent to which farmers of each Province resorted to the mortgaging of their registered land (apart from Board of Works' loans)*, in the three months indicated :—

PROVINCE.	Charging Transactions on Registered Land in the months of April, May and June, 1912.		Number of Separate Holdings affected in each Province.		Amount of Charges.		Average amount of charge at each transaction.
	Number.	Per-centage of whole.	Number	Per-centage of whole.	£	Per-centage of whole.	£
Ulster	336	46	273	48	48,732	31	145
Leinster	164	23	124	21	61,181	39	373
Munster	116	20	111	20	33,416	21	229
Connaught	79	11	60	11	13,431	9	170
Totals	725	—	565	—	£156,760	—	—

* See footnote † on p. 348.

It will be seen that in respect of the number of charging transactions, Ulster is responsible for almost half the total, its figures exceeding the combined figures for Leinster and Munster. In respect, however, of the actual money value of the charges placed on the soil, Leinster comes first, its figures being almost exactly equal to the combined figures for Ulster and Connaught. This is due to the fact that the average loan obtained in Leinster is more than twice and a half as large as the average loan obtained by Ulster farmers, the respective average sizes of loans being :—Leinster, £373 ; Munster £229 ; Connaught, £170 ; and Ulster, £145.

*Registration in Registry of Deeds of Board of Works' charges on registered land ;
undesirability of practice.*

803. A comparison of the above Table with that showing the extent to which the different Provinces make use of the Board of Works' Land Loans shows that while the mortgaging and charging of land is very extensively resorted to in Ulster, practically none of these borrowing transactions take place in connection with the Board of Works' lending schemes.

It must be borne in mind that if the charges placed upon registered land in connection with the Board of Works' land loan schemes were recorded in the Land Registry, and not in the Office of the Registry of Deeds, the above figures for the various Provinces would undergo a considerable change ; for Leinster and Munster made use respectively of 43 and 47 per cent. of the £107,000 advanced by the Board in land loans in 1912-13, and Ulster and Connaught only about 5 per cent. each. Assuming that about two-thirds of these loans were made in connection with registered land, it will be seen that Leinster and Munster approach much more nearly to Ulster in the annual number of separate charging transactions than would appear from the Table in preceding paragraph. This is only one illustration of the statistical defects caused by the recording of charges on registered land in the Office of the Registry of Deeds instead of in the Land Registry.* Any legal difficulties hindering a change in this practice should be removed as soon as possible.

RELEASES OF CHARGES ON REGISTERED LAND.

804. From the Table in Appendices † showing the releases of charges on registered land it will be seen that in the months of April, May and June of 1912, 307 recorded releases of such charges took place, affecting 227 separate holdings, and amounting to a total of £85,584. The approximate amount, therefore, of charges on registered land released in Ireland in 1912 was over £342,000.

ESTIMATED NET INCREASE OF £400,000 IN CHARGES ON REGISTERED LAND IN 1913.

805. By deducting the figures showing the releases of charge from the figures of the charges registered during the above period, it will be seen that an approximate net addition to the charges on registered land in Ireland took place in three months to the extent of over £71,000, there being net decreases of mortgage charges in 7 counties (i.e., Cavan, Clare, Galway, Kerry, Leitrim, Meath, and Wicklow), and net increases in all the other counties. The six counties where the largest net additions to the indebtedness of the land took place were Antrim, Louth, Tipperary, Cork, Carlow, and Down.

Taking the foregoing figures as a basis, it will be seen that the approximate *net* addition to the charges on registered land in Ireland, after making allowance for release transactions, would, at this rate, amount in the year 1912 to over £284,000 per annum ; but the net total for the year was probably nearer to £340,000, seeing that, as we have already indicated, mortgaging transactions were more numerous in other periods of that year than in the months selected for investigation.

For the year 1913 the net increase in the amount of the charges on registered land was probably at least £400,000, in view of the fact that the number of such charges rose to 3,965 in that year.

CHARGES ON UNREGISTERED LAND.

806. From the references which we have made to the functions of the Registry of Deeds, it will be evident that any information in regard to the charges placed upon unregistered land in Ireland must necessarily be less complete, and less satisfactory as a basis for conclusions, than the figures in regard to the charges upon registered land which are compulsorily recorded in the Land Registry Office. Nevertheless, although the transactions registered with the Registry of Deeds during any given time do not represent all the charges placed upon unregistered land in the country, since the element of compulsory

* See footnotes on pages 348 and 351.

† See Table B, Appendix 14 to Minutes of Evidence.

registration is absent, it is possible from the figures furnished to us for the period of April, May and June, 1912,* to obtain a fairly correct approximation as to the annual amount of such burden.

Estimated fresh registered charges on unregistered land in year 1912—£1,000,000.

807. It will be observed that during the period in question (which is the same as that for which figures as to the charges upon registered land were obtained from the Land Registry), 1,235 charging transactions were recorded upon unregistered† agricultural land : in 132 of these cases the mortgagor was the landlord, and in 1,103 cases the occupier. In 942 of the 1,235 transactions, the amount of the charge was disclosed in the deed ; in 55 of these cases the mortgagor was landlord, and the total charge £55,056, while in 887 cases the mortgagor was occupier, and the total charge £98,824. Assuming that the value of the charges in the various transactions where the amount of the consideration was not disclosed was approximately the same as in the instances where it was revealed, and assuming also that the three months in question were average months in respect of charging transactions, we arrive at an estimated annual number of about 5,000 charging transactions, amounting to a total of over £1,000,000, as representing the fresh annual charges on unregistered land in Ireland, not allowing for releases.

When it is borne in mind that many charges are placed on unregistered land of which no information whatever is conveyed to the Registry of Deeds by either party to the transaction, we think that £1,000,000 per annum is a very conservative estimate of the present fresh annual indebtedness on such land ; of this burden slightly over one-half is borne by landlords and the remainder by tenant-occupiers. Even a few years ago the annual amount was probably much over this sum, for the area of unregistered land in Ireland is steadily declining with the progress of land purchase. If the annual releases of charges on unregistered land be assumed as taking place in the same proportion to the fresh annual charges as in the case of registered land, a *net* annual addition of about £454,000 was made in 1912 to the registered indebtedness of unregistered land in Ireland, apart, as we have said, from the numerous transactions unrecorded at the Registry of Deeds Office.

Charging transactions on unregistered land in five selected counties in 1910 and 1911.

808. In addition to the above-mentioned Return for all Ireland, we have also obtained from the Registry of Deeds a more detailed Return‡ for five selected counties (Kerry, Londonderry, Louth, Roscommon and Wexford) for the longer period of two years (1910 and 1911). It will be seen that during these years, 1,279 charging transactions on unregistered land were recorded in these five counties, the total amount of charge, in the 964 transactions where the consideration was disclosed in the deed, being £282,657, *i.e.*, £171,973 where the mortgagor was landlord, and £110,684 where the mortgagor was occupier.

Assuming, as before, the average charge to have been the same in those cases where the consideration was withheld as in the other transactions, we arrive at an approximate total charge in two years on unregistered land in these five counties alone of almost £454,000, or at the rate of £227,000 per annum.

Sizes of Estates and Holdings charged in five selected counties.

809. In the 1,007 cases in the above-mentioned Return for five selected counties where the size of the holding was recorded, the charges affected

371 holdings of under 30 acres in extent.

443 holdings of between 30 and 100 acres.

88 holdings of between 100 and 200 acres.

and 105 holdings of above 200 acres.

Here, as in other Tables in regard to mortgaging by Irish farmers, it will be observed that a large number of holdings under 30 acres are concerned.

* See Appendix 15 to Minutes of Evidence.

† Charges upon registered land in connection with land improvement and other similar loans made by the Board of Works still continue, as we have seen, to be registered by that Board in the Registry of Deeds and not in the Land Registry, save in exceptional circumstances. Legal questions are involved, into which we need not enter ; in *Registration of Title* (Browning and Glover, p. 119), it is submitted that the practice of the Board of Works is "erroneous and may give rise to questions affecting the validity or priority of the loan as a charge affecting registered land." But in any figures quoted in our Report as to charges upon registered and unregistered land in Ireland, the fact that the land improvement loans of the Board of Works secured upon registered land are necessarily included in the totals for unregistered land should be taken into account.

‡ See Appendix 16 to Minutes of Evidence.

Average Amount of Charge involved at each transaction.

810. The following are the estimated average amounts of the charge dealt with at each individual transaction affecting holdings or estates of the description specified :—

Nature of holding.	Approximate average amount of charge at each transaction.
	£
Holding of Registered land	215
Holding of Unregistered land :—	
(a) Where mortgagor is landlord	1,000
(b) Where mortgagor is occupier	110

These figures must be read with due regard to the limitations necessarily attached to averages. For instance, a few very large charging transactions by landlords of extensive estates might so unduly augment the average figure for all Ireland as to give an erroneous impression. But we believe the approximate figures given above are fairly accurate, and furnish a useful conception of the amount of money involved in an ordinary charging transaction of each type. As might be anticipated, the average amount of charge when a farmer owns his land is about twice as large as in the case of a mere tenant.

Para 800-1.

The Returns from the Registry of Deeds afford interesting corroboration of the independent Returns obtained from the Land Registry and the Land Commission, as to the relative prevalence of mortgaging in the various counties of Ireland. For instance, County Antrim, which shows the largest number of charges on registered land, holds the same position in respect to the amount of indebtedness of unregistered land. The debt placed on the farms of 61 Antrim tenant farmers in three months of 1912 amounted to over £12,000, a total for the county four times as heavy as the average rate for the counties of Ireland.

ESTIMATED NET ANNUAL INCREASE IN INDEBTEDNESS OF IRISH AGRICULTURAL LAND,
£1,000,000.

811. By combining the estimates which we have made of the extent to which Irish farmers, both landlords, tenants and tenant-purchasers, resort to the mortgaging or charging of their land we may obtain a fairly accurate idea of the total gross and net additions to the registered indebtedness of Irish agricultural lands, and of the extent to which farmers use this form of rural credit in meeting their borrowing requirements.

See paras. 795-7.

About 4,000 registered charging transactions now take place annually, as we have seen, in connection with registered land, and 5,000 transactions in connection with unregistered land, making an annual total of 9,000 such transactions (to which must be added a considerable number of unregistered charges, of whose number and amount we are not in a position to form any estimate, having no data upon which to proceed). The approximate annual amount of fresh charges on registered land, £857,000, taken together with the similar figure for unregistered land, £1,000,000, gives the sum of £1,857,000 as the estimated gross annual fresh indebtedness of Irish agricultural land; probably £2,000,000 would be nearer the actual amount. At the average rate of 5 to 6 per cent., this means annual payments in interest alone of, say, £100,000 to £120,000 by Irish farmers, while the capital amount borrowed remains undiminished by these payments, a striking contrast to the continental *Landschaften* system.

Para. 846.

When allowance has been made for charges annually released, we obtain an approximate annual net addition of £400,000 to the indebtedness of registered land, and of £454,000 to that of unregistered land, or a total annual *net* increase in the registered burden upon Irish land of £854,000; probably £1,000,000 would be a more accurate figure. (These calculations, we need scarcely point out, do not in any way deal with charges upon non-agricultural land or buildings in Ireland).

See paras. 813-822.

Although the figures in the preceding paragraphs are merely approximations, they are under rather than over the mark, and suffice to prove the very considerable extent to which the farmers of Ireland now resort to the charging of their holdings, in spite of the difficulties of title which so often arise. The facts fully vindicate, in our opinion, the wisdom of the statutory limitation upon the charging of the holdings of tenant-purchasers contained in the Land Act of 1903, although we recognise the force of the objections which have been made by some witnesses at our Inquiry to this restriction of the powers of the new proprietors in utilising the security of their land.

The Estimated total value of Irish Agricultural Land.

812. We have not sufficient information at our disposal to enable an estimate to be formed as to the relation between the annual approximate total addition to rural indebtedness and the total value of agricultural land in Ireland. From a Return* issued by the Estates Commissioners, it appears that on 31st March, 1913, the purchase money of lands sold, or pending for sale, under the Land Purchase Acts, amounted to almost £121,500,000, while the purchase money of the lands unsold on that date (including various classes of holding not likely to come under the operations of the Land Acts) was estimated at almost £78,500,000. The combined figures would give a total of almost £200,000,000 as the purchase price of Irish agricultural land: but this figure would be exclusive of the large sums representing the tenants' interest in their holdings.

LIMITATION ON MORTGAGING OR CHARGING OF HOLDINGS UNDER LAND ACT OF 1903.

813. The following provision of the Land Act of 1903† placed certain restrictions upon the mortgaging of his holding by a tenant-purchaser under that Act:—

“The proprietor of the holding shall not, without the consent of the Land Commission, mortgage or charge the holding, or any part thereof, for any sum or sums exceeding in the aggregate ten times the amount of the purchase annuity payable in respect of the holding or part upon the making of the advance, and every instrument of mortgage or charge on a holding or part thereof by which the holding or part is charged with any larger sum shall be null and void as to the excess. Where part of a holding is mortgaged or charged, the Land Commission shall, for the purpose of this enactment, estimate the amount of the purchase annuity payable in respect of that part.”

Report of 1903 on the Condition of Irish Tenant-purchasers: the Question of Mortgaging.

814. We observe that some limitation upon the power of charging and mortgaging holdings had been strongly recommended in the Report of the Inquiry made in 1903 into the condition of Tenant-purchasers.‡ In the Section dealing with the “Desirability of Maintaining a Control by the State over Purchase Holdings so as to prevent Excessive Indebtedness and Degeneration among Occupiers” this Report stated:—“For its own security so long as the purchasers are liable for the repayment of their State annuities, the Government is bound to see that nothing is done that will endanger that security. At present the only conditions imposed are those against subdivision, subletting, and bankruptcy. If land purchase is to be largely extended, it is advisable that further conditions be provided that will limit the power of charging and mortgaging holdings in a manner that is injurious to the occupier and to the general community. It benefits no one except the moneylender that unrestricted power should be given to occupiers to raise money on the security of their holdings. The experience of other countries—an experience which we cannot neglect—shows that the real danger in a system of peasant proprietary is that of over-indebtedness, which must prove a dangerous obstacle to prosperity. Where the proprietors are absolute owners of their holdings it is very difficult, if not impossible, to impose any efficient check on borrowing. Where the State has an effective control, as is possible under the Irish Land Purchase system, it is very desirable that it should be exercised.”

Evils of excessive borrowing on certain estates.

815. The Report went on to describe the excessive borrowing which had been ascertained to exist on an estate in Ulster: “We found in many cases when tenant purchasers sell their interests, the holdings are bought by men who have no capital, and who have to borrow the money to pay the price and to stock the lands. We are not surprised to learn that the general credit and solvency of the purchasers on this estate have not improved since purchase. ‘There is,’ says our Inspector, ‘too much money borrowed in the district, and this largely militates against the progress of the people. In one place it is the opinion of those acquainted with the facts that fully one-third of the occupiers have money borrowed from loan banks or moneylenders, while in another district it is supposed that two-thirds are indebted to banks or lenders.’ The purchasers on a part of a considerable estate in the neighbourhood are also said to be largely in the hands of ‘Jews and moneylenders.’ Even on that estate the more prosperous and solvent purchasers have borrowed very large sums since they became proprietors under the Land Acts. . . . One firm of solicitors alone lent among them during the last fifteen years upwards of £35,000 on the security of their holdings for the purpose of providing fortunes for daughters, putting sons to professions, paying off legacies, and similar purposes. It does not require much prevision to realise the eventual result of this practice. Because money can be easily raised now on unencumbered interests, and at low rates, the purchasers will gradually get accustomed

* Cd. 6930-1913, pp. 3, 5.

† See Section 51 (3) of 3 Ed. 7., Ch. 37.

‡ *Report of an Inquiry into the present condition of Tenant Purchasers under the Land Purchase Acts* (W. F. Bailey). 1903. pp. 23 and 24.

to borrowing. With each loan their liabilities will become more onerous and their necessities greater. They will raise future loans at higher rates, and in the end will be the owners but in name of the holdings which they were enabled to purchase on such favourable terms by the aid of State credit. As time goes on there will be a natural tendency to an increase in the burdens of the tenant purchasers. The high prices paid for purchasers' interests are, it may fairly be inferred, and indeed in many instances are known to be, largely provided by borrowing or by a mortgage of the holding."

The provision of the *Local Registration of Title Act* (1891) that all lands sold under the Land Purchase Acts should on a purchaser's dying intestate go to his personal representatives instead of his heir-at-law was indicated in the above Report as a probable potent cause of borrowing on mortgage, seeing that considerable burdens in the way of charges would thus be placed on the person succeeding to a farm on an intestacy in order to provide for other persons entitled to a distributive share. "A similar result may be expected to happen where the purchaser makes a will, as there are sure to be charges in favour of the children who get no land. As yet sufficient time has not elapsed for burdens of such a nature to become evident, but there can be little doubt that the next and future generations of purchase occupiers will be heavily weighted by charges so created."

Permissive Limitation on power of Mortgaging in certain German Provinces.

816. The danger of absolutely untrammelled power of mortgaging land is strikingly exemplified by the history of rural credit in Germany. The "*Landeskultur-Edikt*" of 1811 has been termed the "charter of liberty to landowners in the free disposal of their property," but its effect was very different from that intended; for instead of utilising it for the purpose of liquidating their debts by selling portions of their estates, the landowners largely used their new liberty of mortgage credit to extend their holdings, thus piling on a fresh burden of debt. The Government authorities in consultation with various credit and other institutions earnestly considered how best to relieve landed property from this burden. Unanimity was arrived at on the following points: (a) No final scheme could at present be drawn up, owing to the absence of previous experience in the matter; only experimental measures could be adopted for the moment. (b) No scheme of relief would be inherently justifiable or of lasting value unless it ensured a certain and lasting prevention of any recurrence of debt.

The Credit Commission of the German Chambers of Agriculture expressed the view that the registration of a borrowing limit was the first condition for the amortisation of second mortgages by the *Landschaften*. The Agricultural Council of Germany recommended in 1900 that the pledging power of a holding should be limited according to its productive capacity. Under the terms of the Civil Code such a limit could not be fixed in the contract between borrower and creditor, but a special legal enactment was suggested.

Points of difference and resemblance between the German and Irish provisions for limitation of mortgaging.

817. As a result of these various interchanges of opinion the Prussian law of 20th August, 1906, was passed.* It is a permissive measure only, and provides for the registration of a borrowing limit at the request of the owner of the land. This limit must coincide with the lending limit of the credit institution appointed by Royal Decree to serve the particular district; the limit accordingly is not on a uniform basis for the whole country, as in Ireland, but varies with the loan limit of the district. The effect of registration is that beyond the registered limit (with few exceptions) no fresh burdens, of mortgage or otherwise, can be placed upon the holding in question; but existing rights are not affected.

As the Government were uncertain as to what would be the effect of fixing such a limit on charging land, it was enacted that a Commissioner, appointed by Royal Decree, might at the request of the owner, and after hearing the credit institution concerned, allow the limit to be exceeded or abolished. Permission is, however, only given in very special cases, and may not be to the extent of more than one-fourth of the borrowing maximum fixed. (The limit is entirely abolished only when the land ceases to be used for agricultural or forestry purposes, or when it is no longer qualified to receive loans from the local credit institution).

There are several interesting points of resemblance between this recent German measure and the provisions of the Irish Land Act of 1903, the right to apply in Germany to a State Commissioner for permission to exceed the limit specified being, for instance, analogous to the similar appeal allowed in Ireland to the Land Commission. The German measure has, we understand, been put into effect by Royal Decree in the provinces of East Prussia, West Prussia and Posen,† i.e., the districts where the heaviest burden of

* See *Jahrbücher für Nationalökonomie und Statistik*. Vol. 39, 1910, p. 577 et seq.

† See *Kgl. Landes-Ökonomie-Kollegium*, Proc. 1913, p. 59.

mortgage debt exists. The fact that a country like Germany, where the operations of rural credit on safe lines have been brought to the highest state of organisation, has thus found it desirable to endeavour to limit the powers of free mortgaging of land, furnishes an important lesson for Ireland.

Recommendations of the Royal Commission on Congestion as to Mortgaging.

818. The Royal Commission on Congestion in Ireland (1908), were of opinion that "the restrictions placed on the borrowing powers of peasant owners must be very carefully devised so as, on the one hand, to discourage improvident borrowing, and on the other, to meet as far as possible legitimate demands for credit facilities." They considered that the limitation in the Land Act of 1903 was not sufficient to safeguard the small farmer, and suggested that it might be desirable to introduce some provision analogous to the homestead laws of the United States and of some colonies; or to apply the Bankruptcy Act of 1883 to Ireland, so as to protect an indebted small farmer in certain directions. The Report added:—"We have no hesitation in stating that some provision to check the improvident pledging of small holdings in the West of Ireland will be necessary for, at least, a generation before the matter can safely be left to the enlightened self-interest of the small farmer. Such provisions would, however, be useless if they were not supplemented by an extension of the existing facilities for legitimate borrowing."*

Difficulties connected with provision for exemption for debt.

819. It must be recollected, however, that the proposal to introduce exemption provisions has another side to it, and that such exemptions, while aiding the farmer in one direction, may on the other hand be a hindrance to the development of schemes of both personal and real agricultural credit. This important aspect of the matter seems to have been brought under the notice of the American Agricultural Commission which visited Europe in 1913. In the Report furnished by a member of that Commission, and printed as a Senate Document,† he states:—"In Germany there is no exemption for debt other than the absolute necessities of life. With us we have exemptions of one kind or another in every State, and we know what an effect these exemptions have upon our ability to secure credit from private bankers. It would be impossible for a co-operative bank to succeed and flourish unless these exemptions were withdrawn. All officials of such institutions in Europe are agreed upon this point." In any proposals to introduce or extend exempting enactments of this nature for the benefit of the Irish farmer regard should be had to the fact that any serious lessening of the security of a creditor in the supposed interests of the debtor, especially in the case of the smaller classes of agriculturists, is bound to prove in the long run a hindrance to the obtaining of credit by the latter. We believe that, on the whole, more advantage would be gained at present by bringing "judgment" mortgages within the limits of Section 54 of the Land Act of 1903 than by any such exempting enactment.

See paras.
825-9.

APPLICATIONS TO LAND COMMISSION FOR PERMISSION TO CHARGE HOLDINGS IN EXCESS OF THE STATUTORY LIMIT.

820. In the Appendices to our Report will be found a Return‡ furnished at our request by the Irish Land Commission, giving for each County for the period since the coming into operation of the Land Act of 1903 (on 1st November of that year) to 31st March, 1913, the number of applications received from farmers for leave to mortgage or charge their holdings for sums exceeding in the aggregate ten times the amount of the Land Purchase annuities.§ The Return also gives the amounts of such mortgages or charges for which sanction was given in each county.

It will be seen that 508 applications (or an average of 53 per annum) were received. In 392 cases (or 77 per cent. of the total) sanction was given, but not always for the full amount asked.||

The fact that the applications received by the Land Commission from farmers for leave to exceed the ten-times-annuity limit in charging their land have averaged only about fifty per annum would at first sight seem to afford proof that the tenant-purchasers

* Cd. 4097, pp. 92, 3. Since then the safeguard has been diminished, for the legal decision to the effect that "judgment" mortgages are exempt from the limitation of Sec. 54 (3) of the Land Act of 1903 was given (1909) since the Royal Commission issued their Report.

† *The German Farmer and Co-operation.* (F. J. H. von Engelken), Senate Document No. 201, p. 16.

‡ See Appendix 17 to Minutes of Evidence.

§ The maximum amount which could be charged upon a holding under this limitation would be a little less than one-third of the amount advanced for the purchase of the holding under the Act of 1903, and a little over one-third under the Act of 1909.

|| A number of these mortgages or charges were in respect of loans obtained from the Board of Works, under the Land Improvement Acts, and of loans obtained from the Congested Districts Board.

J. T. Drennan,
4587.

under the Acts of 1903 and 1909, so far as they have resorted to charging their land as a source of credit, have found their needs met in the majority of cases by transactions carried on within the statutory limits. By comparing, however, the information for the period ended 31st December, 1911, with the figures for the period between that date and March, 1913, we find that in the later period 231 applications to exceed the statutory limit had been received, as compared with 277 applications for the previous eight years and two months, an increase in the average rate per annum of such applications from 34 to 185. The additional purchase transactions completed would largely account for this increase.*

See paras. 825-9.

The fact that in almost four-fifths of the cases where permission to exceed the statutory limit was asked for the Land Commission have given their sanction would point to the need of capital on the part of these applicants, for approval is not granted without due inquiry into the circumstances. It must also be remembered that a tenant-purchaser who bought before the Act of 1903 does not come within the limiting provision of that Act: while "judgment" mortgages are held to be outside the scope of the limitation. Again, the restrictions of the Land Acts as to mortgaging, subletting, etc., will not, unless further legislation provide otherwise, be operative after the occupier has completed the payment of his purchase annuities

Opinion of some witnesses that limitation of 1903 Act unduly restricts borrowing power of farmers.

J. Kyle,
14825,
14899-14903.

821. On the other hand, several witnesses informed us that the provision in the Land Act of 1903 limiting the power of a farmer to borrow money, on the security of his holding, to ten times the amount of the annuity, though in some ways a very desirable restriction, had proved a handicap in numerous cases, in that it prevented a farmer obtaining funds (say, for the purchase of additional land) as readily as in former times. The Secretary of the Co. Antrim Agricultural Association, in dealing with this limitation, said:—

"Before the 1903 Act, if a man had £200, he could have bought a farm costing almost £1,000, and borrowed the balance of the money. Now he would require to have about £800 in cash, for he could only borrow about £200."

"I could give you an illustration, since the passing of the Act of 1903, of how it affected a farm I have for sale within two miles of Ballymoney. It was on the Adair estate. The annuity was £11. I could have got £825 for that farm."

Q. By selling it?—A. Yes.

Q. That was the occupier's interest?—A. Yes. £825 was the price offered, provided the purchaser could get a sufficient loan to buy it, but he could only borrow £110. The Land Act of 1903 prevented him from borrowing any more.

Q. How much more could he have borrowed before that?—A. He could have borrowed, say, £600.

Q. What has happened to the farm?—A. It is not sold yet."

The witness suggested that the limitation on borrowing might with safety be raised to 25 times the amount of the annuity (which would be equivalent to over four-fifths of the purchase price) in order to facilitate the purchase of farms. He stated that about 50 per cent of the farms in the district around Ballymena were mortgaged, usually at 4 or 5 per cent interest, and that much of this lending business was done through solicitors who lent money on behalf of their clients. In other districts, also, we have received corroborative evidence showing the large extent to which solicitors have engaged in these money-lending transactions upon the security of mortgages.

See para. 834.

Advantages of statutory limitation upon charging land outweigh any drawbacks.

822. As to the complaint that the limitation placed upon mortgaging by the Act of 1903 handicaps farmers by increasing their difficulty in obtaining capital for the purchase of land, the Land Commission, as we have pointed out, have power to sanction the limit being exceeded in desirable cases. A large majority of the applications made by tenant-purchasers to the Land Commission since the passing of the Act for this permission have been acceded to. Your Committee are convinced that, on the whole, the advantages of the limitation imposed by the Act of 1903 far outweigh any drawbacks attached to it. We do not, therefore, recommend any change in this restriction; it is, in our view, a very salutary provision against indebtedness through over-mortgaging.

* From the further information for the year 1913-4 given at the foot of the Table in Appendix 17, it will be seen that during that year 147 applications for permission to charge holdings with sums in excess of the statutory limits were sanctioned by the Land Commission; while 49 applications, covering proposed charges to the amount of £22,684 were refused. The total of the 147 charges so sanctioned was £37,164, while the charges previously existing on the lands concerned, as disclosed in the applications, amounted to £20,806. The total amount which could have been charged upon these lands under the statutory limit was £32,845, so that in these cases the holdings have been charged by the proprietors with sums amounting to £25,125 in excess of ten times the Annuities payable.

Assuming the same proportions to apply in connexion with the total charges sanctioned since the Section came into operation in 1903, the total amount of the charges in the 539 approved cases would be about £125,000 in excess of ten times the Annuities payable.

RATE OF INTEREST ON MORTGAGES IN IRELAND.

823. Your Committee have no reason to believe that the prevailing rates of interest on mortgages in Ireland are unreasonable. According to the evidence furnished us by the Land Registry, the rate "varies considerably, sometimes being as low as four per cent., and sometimes as high as ten per cent. The usual rate is five or six per cent." Few complaints were made to us by witnesses upon this point.

F. H. Browning,
6629.

The absence of a system of easy repayments under an amortisation scheme, such as that of many Land Credit Institutions upon the Continent, is a serious disadvantage to the borrowing farmer who finds himself frequently called upon to repay the total amount of the advance in one sum at great inconvenience. In many cases he can only do so by negotiating another mortgage. The question of the exact rate of interest is insignificant in comparison with this drawback.

Advantages of Continental mortgage systems in respect of interest and terms of repayment.

824. The disadvantages of the methods of the ordinary mortgage system as compared with the sinking fund repayments of the Continent have been well described in a document recently published in the United States, from which we quote the following paragraph:—

"Take this illustration from a Danish mortgage-society law, mentioned by the Commission on Rural Credits and Betterment. Members of the company (farmers who have mortgaged their property) must pay a yearly amount of 4 per cent. interest, three-fourths of 1 per cent. amortization, and one-fourth of 1 per cent. for expenses, making altogether 5 per cent. per annum, with the result that in 47 years their debts, principal and interest, are paid in full. The American farmer mortgages his farm and pays from 7 to 10 per cent. interest per annum. The average rate of interest paid by the American farmer to-day is 7·79 per cent. per annum, while the German pays 3½ to 4 per cent., notwithstanding interest rates are generally higher there than here. His mortgage runs for 3 to 10 years—no matter what time—at the end of which he must pay the entire principal. Suppose, with renewals, his mortgage runs 12 years. He would pay 90 to 95 per cent. for the use of his money for that time. The Danish farmer would pay 135 per cent. for his money for 47 years. The American farmer would pay 7·5 per cent. a year for his money, the Dane would pay 2·9 per cent. The Dane's loan is an investment. He can afford to borrow money to improve his farm or purchase his farm at that rate. The American is in debt and mortgaging his home; the Dane is using his credit. Each year, while paying only 5 per cent. on the money received, the Dane is getting out of debt. The American is paying 7 to 10 per cent. and not reducing his debt a penny. At the end of 47 years—or less time if he chooses to pay more—the Dane is out of debt, and his premises are free. At the end of any period—even 100 years—the American would owe the original principal, his premises would be encumbered by the mortgage, although he will have paid twice as much as the Dane."*

We give later on in our Report a description of the methods followed by the *Landschaften* of the Continent in dealing with charges on land. Paras. 837-846.

"JUDGMENT" MORTGAGES IN IRELAND.

825. The transactions known as "judgment" Mortgages occupy a considerable space in Law Reports and in books dealing with the registration of charges on land.† We are concerned, however, with this class of mortgage only in so far as the position of the Irish farmer as a borrower upon the security of his land is thereby affected.

The *Judgment Mortgage Act of 1850* (13 and 14 Vic., Ch. 29), abolished the whole previously existing system of tenancy by *elegit* and the equitable charges upon the land of a debtor created by Pigot's Act (3 and 4 Vic., Ch. 105), &c., and put in their place a comparatively simple method of attaining the same end. Section 6 of the Act enacts that where the creditor under any judgment entered up after the passing of the Act shall know or believe that the judgment-debtor is possessed at law or in equity of any land, or has any disposing power over such land which he may exercise for his own benefit, the creditor may, at any time after the entering up of judgment, file in the Court an affidavit giving particulars as to the cause in which judgment was obtained, the parties to it,

* Speech made in the Senate of the United States on August 9th, 1913, by Senator Fletcher, upon the National Rural Banking System.

† An interesting historical account of the system of judgment mortgage, and of the legal position of a judgment creditor, is given in *Madden on Registration*, pp. 82 *et seq* (2nd Edition). See also *Registration of Title* (Browning and Smith), pp. 119-122.

the amount of debt, damages, and costs, a description of the exact situation of the land, &c. This affidavit must be registered by the creditor in the Registry of Deeds in the case of unregistered land, and in the Land Registry Office in the case of registered land (Sec. 21 of the *Local Registration Act* of 1891). The effect of this registration by a creditor of an affidavit of ownership is to vest in himself the estate of the debtor, subject to redemption on payment of the money owing on the judgment. The rights of the creditor are practically the same as if an effectual conveyance or mortgage of the estate in question had been made and registered at the time of registering the affidavit.

Inconvenience caused to both parties by the "Judgment Mortgage" System.

826. Neither creditors nor debtors seem to be satisfied with the position created by this Act, which has been the cause of much litigation, and of conflicting decisions. The creditor, on the one hand, has no longer, as he had previously, an equitable charge on all the real estate of the farmer who has failed to pay his debts, nor the power of converting that charge into a tenancy at law: for the particular lands which the creditor wishes to charge must be specified, and his security is limited to them. If he be misinformed, or be unable to state the situation of these lands with sufficient accuracy, his security fails. Also, the charge can only be created by compliance with the requirements of an Act full of difficulties: and when duly registered, it must take the same priority in relation to other charges on the same lands as a judgment under the previous law. Again, in the case of leaseholds, the creditor by means of a judgment mortgage becomes liable to fulfil all covenants in the lease, a liability he may not have the means of ascertaining.

On the other hand, the debtor is likewise subjected to inconveniences, for no matter how small the debt the creditor can, "without any notice to the debtor, and by a purely *ex parte* proceeding, divest the whole of the debtor's estate in lands of any value, and vest them in himself." If the debtor's estate is legal, and vested in possession, the creditor, "without any demand of possession can, immediately after registering his affidavit, bring an action of ejectment on the title."* Other serious drawbacks exist which we have not space to mention. These judgment mortgages are, as far as we can learn, an institution peculiar to Ireland.

Extent to which "Judgment Mortgages" are obtained by Creditors.

827. It will be seen that of the 725 charging transactions included in the Table of charges on registered land,† 54 charges (or over 7 per cent.) were in the nature of "judgment mortgages," amounting to a total of £6,693. Assuming that the period in question (the months of April, May, and June, 1912,) was a fairly typical one in this respect, it would seem that about 220 "judgment" mortgages are annually obtained in Ireland on registered holdings, to the amount of £26,000.

Your Committee have ascertained that a considerable number of these charges are also obtained on unregistered land. From the information with which we have been furnished by the Registry of Deeds as to the charges on unregistered holdings in five selected counties during the years 1910 and 1911,‡ it will be seen that 123 "judgment" mortgages were registered during that period in these five counties alone. We have no data upon which to found an accurate estimate of the number of such mortgages annually being effected on unregistered land in the remaining counties of Ireland; but the total transactions would probably number at least 400 or 500, amounting, say, to £50,000 or £60,000, taking the average amount involved in a judgment mortgage as £125.

The available figures furnish sufficient proof that this type of burden on the land is fairly prevalent, both in the case of registered and unregistered holdings. Needless to say, it is a transaction which easily lends itself to collusion between the creditor and the borrower. By this means a money-lender or other creditor can become temporarily, and too often permanently, the owner of the debtor's farm.

From an analysis of the information placed at our disposal in regard to the 54 judgment mortgages on registered land above referred to, we have ascertained that the persons in whose favour these charges were created may be classified as follows:—14 merchants and shopkeepers; 10 farmers; 3 auctioneers; 3 solicitors; 4 Banks; 1 Loan Society; 7 moneylenders; 3 widows, &c.

* *Madden on Registration*, pp. 93-5.

† See Table A, Appendix 14 to Minutes of Evidence, p. 542.

‡ Appendix 16, do. p. 546.

“Judgment Mortgages” as a means of evading the Statutory Restriction on Mortgaging.

828. It is much to be regretted that the provision of the Land Purchase Act of 1903, permitting a tenant-purchaser under that Act to charge his holding only up to ten times the amount of his purchase annuity (unless the consent of the Land Commission be first obtained for exceeding that limit) should be rendered void in many cases by the legal decision* that this Section of the Act does not apply to “judgment mortgages.” Mr. F. H. Browning, in speaking of money-lenders’ transactions with farmers, said:—

“They generally work by what is known as a Judgment Mortgage—they record judgments for money due to them, and register that as a charge against the land. There is a good deal of that, and it is one way of evading the provisions of the Act of 1903, which states that a purchaser may only charge his holding to ten times the amount of his annuity. That section of the Act does not apply to Judgment Mortgages. . . . There has been an actual decision on the matter. There was a decided case in 1909 that Section 54, Sub-section 3, does not extend to Judgment Mortgages. 6634-12.

Q. Where was that judgment given?—A. In the High Court in Dublin (Irish Land Commission) by Mr. Justice Wylie. The name of the case is *re Roulston*. It is a binding decision at present.”

Criticism by Mr. Justice Wylie of “Judgment Mortgages.”

829. In giving his decision, the judge said:—“In my opinion, therefore, Sec. 54 (3), only extends to a mortgage or charge by a voluntary act of the proprietor, and does not invalidate a judgment mortgage, no matter what the amount of the prior charges on the holding may be. Hence the curious and absurd result follows from this benevolent attempt of Parliament to protect a tenant-purchaser from himself, that a mortgagee by deed, who advances his money beyond the limit prescribed by the Act, must lose the excess, while a judgment mortgagee, who may subsequently advance money upon the security of the same lands, but charged by a different method, though it may be in substance as voluntary a charge as the other, can claim payment of his charge in full. My duty, however, is to administer the Act as I find it.”

Your Committee need add nothing to this lucid description of the anomalous and unfair situation which may thus arise as between the claims of two classes of creditor of a borrowing farmer. Having regard to the importance of the matter, and especially in view of the desirability of preventing the new peasant proprietary incurring undue burdens of debt upon their land—a temptation which will probably increase as their standard of living rises—we think it very desirable that the present legal position in regard to judgment mortgages—a position which, as pointed out by the judge, goes far to render nugatory the wise intentions of the Legislature in limiting the powers of mortgaging possessed by the Irish tenant-purchaser—should be brought to an end; and that any legislation needed to accomplish this aim should be introduced.

Reluctance of Joint Stock Banks to accept sole Mortgage Security for Loans to Farmers.

830. An aspect of the existing system of agricultural credit in Ireland which was much emphasised by numerous witnesses at our Inquiry is the extreme unwillingness of the Joint Stock Banks to accept a mortgage on land as security for a loan, unless it is supported by collateral personal security. We have in the opening portion of our Report referred to the causes which handicap the agricultural industry in the sphere of commercial credit. Amongst these are the reluctance of the banks to lock up their capital in land security; the serious difficulties often attached to the realisation of such security in case this course should become necessary through the default of the borrower; the natural unwillingness of the banks to take unpopular action, even when realisation would be feasible; the difficulty in estimating the exact value of the security offered by farmers, especially in view of the frequent absence of commercial methods of keeping books and accounts; the fluctuations which take place in the price of land; and the uncertainty in many cases as to the exact legal title of the would-be borrower. When to these reasons, which mainly affect real credit, we add the various other handicaps on agricultural credit generally, *e.g.*, the length of term of the loans usually required by farmers, the seasonal nature of the agricultural industry, the risks from disease and weather, and the frequent absence of knowledge on the part of the banks as to the character and standing of the smaller and more distant farmers, there is little difficulty in appreciating the reluctance of the Joint Stock Banks to accept a mortgage as sole security for an advance, save in the last resort.

See paras.
15-25,
51-58.

* *Re Roulston* [1909], 1 I.R. 306; Irish Law Times Reports, Vol. 43, pp. 232.

Evidence of the Chairman of Longford Co. Committee of Agriculture.

831. The net result of these various factors is that a farmer, as a rule, finds much difficulty in obtaining funds upon the security of his land. This aspect of rural credit in Ireland was referred to by the Chairman of the Longford County Committee of Agriculture, and Crown Solicitor for County Longford :—

T. W. Delany,
12403-9.

“ I consider the difficulty which banks or other persons taking mortgages have on a forced realisation of their security makes it practically impossible to borrow a sixpence on this land security. In addition to this, grave difficulties arise in making title, owing to the absence of documents. I consider if it were possible to create a different atmosphere, the most advantageous and uplifting method would be if the owners of small holdings could obtain advances by way of overdrafts from banks, the most desirable that could be obtained : but at present the timidity of the people, in the existing condition of things, about interfering in a forced sale naturally prevents banks or others from advancing money, and thereby supplying capital for the reasonable and proper development of agricultural business. In different circumstances I am confident that banks would be quite willing to lend money on this security, and genuine borrowers, desirous of obtaining capital for the improvement of their position, or the development of their business, would attain most cheaply what they desire and badly need.

Q. “ You would suggest that the bank should advance the money without asking for two personal securities ?—A. Yes. I think it is a ridiculous thing, if I have a farm that I could sell for four or five or six hundred pounds, to go into a bank in Longford and not be able to get sixpence on the strength of it.

Q. “ Their objection is having to take over the farm ?—A. Yes ; that if there was a forced realization it might not be negotiable.

Q. “ So, while these men have considerable property, it is little or no use to enable them to procure capital ?—A. It is absolutely worthless. The bank will lend upon the stock which the borrowers or the security may have, but not upon the land.”

The witness went on to say :—

“ I have attempted negotiating loans for small farmers in banks, and when I described the farms the banks wanted to know what other means the borrowers had to pay, intimating that sixpence would not be advanced on the farm alone, and that they did not look on it as an ultimate means of realizing their money.

Q. “ It is only on the stock—the liquid assets—they will advance ?—A. Yes.

Q. “ Do you see any way in which an improvement could be made in that respect ?—A. Well, it is largely a matter of education. It is largely a matter of realizing when an honest debt is due that it should be recovered, and not to be squeamish about helping the man to realise it.”

National and State Banks of United States and real security.

832. Much other evidence to the same effect could be quoted ; for this unwillingness of Joint Stock Banks to lend for long terms, and on the security of the land, is a universal feature of these banking concerns. Thus in a recent official publication in the United States the following statement occurs :—“ Our National banks, with their hundreds of millions of accumulated money, are prohibited by law from lending him one dollar on the security of his real estate. The State banks, having to compete with the national banks, are necessarily largely influenced by this requirement, and consequently as a rule the farmer cannot hope to use his one asset, namely, his farm, as a basis of credit with any banking institution. Even if the National or State commercial banks could lend him the money needed for his capital requirements, such loans would necessarily run for a short time, would mature long before there was any possibility of repayment, and would utterly fail to supply this need.”*

Unwillingness of many Irish Farmers to mortgage their holdings.

833. The unwillingness of farmers to mortgage their land for working capital, save when forced to do so through the impossibility of obtaining funds otherwise, is a favourable feature of Irish rural economy in many districts. In regard to this subject the Chairman of the Braid Co-operative Agricultural and Dairy Society, County Antrim (a county where a considerable amount of mortgaging takes place) stated :—

Para. 801.

C. M'Auley,
15649-51.

“ Few men who are clear of a mortgage will mortgage their farm for working purposes ; they would rather starve their farm, and themselves, than do so, seeing around them the results from mortgaging by their neighbours.

Q. “ That is where the need of money comes in ?—A. The need of small money. The small farmer dislikes the idea of mortgaging his farm for £20, and paying law costs ; and from what we know about the legal fraternity, these costs are very expensive. That is where I think money is required. The worst of the effects of a man giving a mortgage arise from different causes : first, the continuous dread of being called upon to pay off the mortgage ; second, not knowing from whom he has the money borrowed

* “ *The Davis Plan of Rural Banks*, ” (Senate Document No. 141. Washington, 1913, p. 7.).

—he gets it through a solicitor. There was a recent case in this town where one solicitor went down with £30,000! That was a big sum. Although paying the interest agreed upon, the borrower may be compelled to pay, and in some cases without the authority of the lender. This is the case in point—a mortgagee died soon after lending. His executor was advised to collect. Another party was advised to lend on this undeniable security. Then, in a short time, this party was advised to collect, and another party was advised of an extra good and safe investment, but the letters of the last payers or two were put in the contrary envelopes, and the third party saw the game; then it was up in this case. But the game is carried on still. . . . The system is terrific for a poor farmer.”

A member of the King's County Farmers' Association, in reply to a question as to whether mortgaging of farms was resorted to in his neighbourhood, said:—

T. A. Cobbe,
17239.

“No. I am glad it is not. It would sink the farmers. The banks won't take a mortgage. There is scarcely any person who would buy a farm sold by a bank. There is a sort of feeling in the country against it. It works against the farmers getting credit; but on the whole I think it is better, because it prevents the farmers sinking themselves.”

Another witness, speaking of mortgaging by farmers, said: “It is when all hope fails that they do it—when they can get money from no other source.” Even when full allowance has been made for the desirability of a sound and convenient method for enabling a deserving farmer in need of capital to obtain such aid on the security of his land, we are of opinion that this reluctance of so many Irish farmers to mortgage their land is a trait in their character to be encouraged rather than otherwise.

P. Conlan,
12895

Mortgage transactions by Solicitors; unauthorised calling in of loans.

834. The practice is apparently growing amongst certain solicitors in Ireland of engaging in money-lending on mortgages on behalf of their clients. One of the grave drawbacks to this system, from the farmer's point of view, is the uncertainty as to when the mortgage may be called in; sometimes this is done by the solicitor without the authority of the lender, for the identity of the lender is often unknown to the borrower. A witness from County Derry told us that much mortgaging by farmers went on in that county.

Q. “What rate of interest do they pay for the money?—A. From five to six per cent., and then a solicitor has to draw up the mortgage, which means practically another five per cent. That would mean from ten to eleven per cent. for the first year at least. In many cases the solicitors collect the money and make a charge for collecting.

A. Barbour,
15044-4.

Q. “They charge the borrower for collecting the money?—A. Yes; they charge about one per cent.

Q. “You look upon this mortgaging by small farmers for small loans as a ruinous system?—A. Yes, most undoubtedly.”

Mr. J. Hill Dickson, J.P., who was asked by the County Down Committee of Agriculture to give evidence at our Inquiry, in speaking of the large amount of mortgaging done in that county, referred to this recalling by solicitors of a mortgage within a few years in order to gain the profit from the fresh charges made in connection with the new mortgage.

Paras. 800, 801,
15578-82.

“The most iniquitous thing about mortgaging is that men go to a solicitor to get the mortgages arranged. The solicitor charges for the mortgage deed. He tells the man in a couple of years that the money is wanted, and the borrower has to get a fresh mortgage again. Some solicitors make a business of that.

Q. “I have been told it is an absolute trade?—A. Yes.

Q. “Are the mortgages not for a fixed term?—A. For twelve months.

Q. “Would they not be for five years?—A. No, I think not.

Q. “The general thing is for one year?—A. Yes. Then the fish will be allowed to run for another year. Then the solicitor says: ‘I am obliged to call in the mortgage, but I will get it from some other person.’ The man has to pay for a fresh mortgage.”

Your Committee cannot but express their extreme surprise and regret that members of an honourable profession should be found stooping to practices of this sort, which must inevitably cause serious inconvenience and loss to the unfortunate farmers who are victimised thereby, and who find themselves called upon to repay advances almost at a moment's notice, in order to place a few pounds in a solicitor's pocket. If we had not proof that this most reprehensible practice is a fairly general one in some districts of Ireland, we should not feel constrained to speak thus strongly on the subject.

Large amount of mortgaging by farmers in certain Counties.

835. From the figures quoted elsewhere, it will be noted that in Antrim a larger amount of mortgaging of registered land (both in respect of number of transactions and of total money value) took place in the period selected than in any other Irish county. In the three months 71 charges on registered land were effected, to the extent of £14,620. When to this are added the 75 charges on unregistered land, amounting to about £16,000 in the same three months, it is clear that the farmers of Antrim go in very extensively for mortgaging.* Whether this is an indication of enterprise, or otherwise, it is impossible to say without knowledge of the facts in each case; but several of the witnesses from that county expressed at our Inquiry their opinion that the practice was much too general, and that it had led to detrimental results in numerous instances. We note that of 31 applications received from County Antrim (to March, 1913) to charge holdings in excess of the statutory limit, consent was refused by the Land Commission in 13 cases, *i.e.*, in 42 per cent. of the total. Other counties where in a considerable proportion of applications consent was refused were Armagh, Down, and Tyrone.

A farmer from County Down stated that there was a great deal of mortgaging done in that county, especially in the upper portion.

"It is not an uncommon thing for a man with very little money to buy a farm of land. A solicitor generally has money to lend. A man has a couple of hundred pounds, and buys a farm for a thousand pounds, and he gets a mortgage for the other £800.

Q. "Is that the chief purpose for which the farms are mortgaged—to buy land?—A. Yes, mostly to buy land.

Q. "And is it mostly through solicitors that they do that business?—A. Generally through solicitors."

Another Co. Down witness said:—

"A great number of people have been sold out under mortgages, but there is no trouble in getting money on a mortgage to pay for a farm. On Monday there was a farm of eight Irish acres of land sold at about £60 an acre, held under Lord Annesley, and the man that bought it has not the money. He has about £200 and a farm, and he will give a mortgage for the balance—£500 on both farms.

Q. "Is not that a high price?—A. It is an enormous price.

Q. "Is the land subject to rent?—A. Yes, the ordinary agricultural rent.

Q. "Is the land exceptionally good?—A. No, it is bad land.

Q. "Why was such a price paid for it?—A. In our county at present the tenant-right price of any farm is up to £50 or £60 an Irish acre. In regard to the legal expenses of a mortgage, if there is a new lawyer, he will not charge the top of the scale, but the usual rate is £6 or £7. Lawyers are pretty numerous now. In Castlewellsan ten solicitors have offices. A new man would charge you, perhaps, only £4 10s. for a mortgage. If a person could borrow the money through some other system, and pay some of the 'stock' as well as the interest, it would be a great advantage. Money is plentiful in our district. The small farmer can get a large sum to buy land, but he cannot get a small sum to buy stock and to tide him over a difficulty."

Mortgaging not suitable as a source of Credit for smaller holders in Ireland.

836. Although, as already pointed out, the problem of land purchase has been largely solved in Ireland by State aid, it is evident that farmers often resort to mortgaging for the purpose of obtaining the means of purchasing more land. But the requirements of the agricultural industry in respect of current expenditure for stocking, manures, seeds, &c., are not usually met in this way in Ireland. Nor is the mortgaging of the smallest type of holding easily negotiated as compared with larger farms, one obvious reason being that a mortgage is usually arranged for an amount considerably short of the value of the farm offered as security. A mortgage on a very small farm is, therefore, seldom worth the expense of negotiating it, even when a lender can be found willing to accept such security. On the whole, therefore, mortgaging cannot be looked on as a source of capital and credit in Ireland for any but a medium or large farmer, and then chiefly for purposes of land purchase, family settlements, legacies, &c., not for current expenditure.

LAND MORTGAGE CREDIT ASSOCIATIONS.

837. The suggestion has frequently been made that to meet the long-term credit needs of agriculture in the United Kingdom, mortgage credit institutions, whether of the *Landschaften* or the Mortgage Credit Bank type, which have proved so successful on the

* The figures at our disposal would go to show that about 600 or 700 registered charging transactions take place annually in connection with land in Co. Antrim; the total amount of such charges being approximately from £120,000 to £145,000 per annum.

Continent, should be established. It is natural that these organisations should have attracted the attention of those interested in the problems of agricultural credit, for their success in Germany, and in some other countries which have followed Germany's model, has been very striking. We propose, therefore, to consider briefly the constitution and working of these important instruments of real credit.* We shall then consider how far, if at all, the suggested formation of similar organisations would be advisable or possible as a solution of some of the rural credit problems of Ireland, with special regard to the needs of the small and medium farmers.

Origin of the Landschaften (Land Credit Associations) of Germany.

838. The history of the origin of these institutions is instructive. The first *Landschaft* was founded in Prussian Silesia in 1770, after the Seven Years' War, by Ferdinand II. of Prussia, upon the suggestion of a Berlin merchant, Herr Buehring. The nobles, who owned almost all the land of that province, had been nearly ruined by wars, changes in the currency, the rise in interest, and a heavy fall in the price of land: they therefore lacked the working capital required for their estates, and were heavily in debt. The original *Landschaften* were compulsory associations of all large landowners within a province; all their estates, whether they wished to borrow or not, being compulsorily included in the guarantee of the bonds of the Associations for that province. The object was to obtain for their members the credit they might require for land improvement by means of bonds guaranteed collectively by the landowners of the province, loans being guaranteed only with the consent of a directorate elected by the members. There are now 25 of these institutions in Germany. The bonds are not secured by specific mortgage charges, but by the total of the mortgage charges of the particular Association, supplemented by reserve and sinking fund payments. In most cases the Associations are now guaranteed only by the properties upon which the advances have been made. Formerly bonds were secured by mortgage upon specific lands, with the Association's concurrent guarantee, but gradually the plan has been adopted under which bonds merely represent claims upon the Association, based on mortgage claims of a corresponding sum, so that a bond-holder has no right against particular lands, but only a right to recover from the Association. Care, of course, is taken that the bonds in circulation are covered by existing mortgages, and that each bond is in conformity with a mortgage claim.

Constitution and operation of the Landschaften.

839. These organisations seek no profit, and, save in two cases, have no share capital and therefore pay no dividends, any profits going to reduce the loans. In several respects they resemble on a larger scale the ordinary Co-operative Credit Societies; in fact, it was from the *Landschaften*, the originals of all land banks, that Schulze first drew his ideas of co-operative credit. They are associations of borrowers, with collective guarantee, whereas the ordinary Joint Stock Mortgage Banks are associations of lenders; and since they create a security which is realisable at any time, they far surpass in convenience for purposes of rural credit any system of individual mortgage security. There is a growing tendency, we note, to substitute for unlimited liability a limited guarantee of the members, or a guarantee consisting of the special reserve funds. The complete system of land valuation and registration in Germany greatly assists this change to a limited guarantee; but in some of the oldest organisations the collective guarantee is still in force. Paras. 782-3.

State Control and supervision of the Landschaften.

840. The *Landschaften* have a semi-official character. Their business is supervised and inspected by the State through a Royal Commissioner; the inspection is usually entrusted in the first instance to the Governor of the province, the final supervising authority being the Minister responsible for agricultural affairs in each State. They have the important privilege of proceeding, in case of non-payment by a borrower, to administer

* See *Report on Agricultural Credit and Co-operation in Germany*, pp. 1-61; *An Outline of the European Co-operative Credit Systems* (Rome, 1913), pp. 39-46; *Preliminary Report on Land and Agricultural Credit in Europe* (U.S.A. Senate Document 967), pp. 16-32; *Report on Land and Agricultural Banks* (Madras), 1895, pp. 48-121; *Monographs on Agricultural Co-operation in Various Countries* (Rome), 1911, pp. 50-66.

or sell by auction the mortgaged lands without having recourse to the ordinary civil procedure in the law courts. The leading officials are elected by the members of the Association; but the appointment must be confirmed by the Crown or by the Minister of Agriculture. "Public control is also effectively exercised by the necessity for approval by the Crown and the Minister of Agriculture in Prussia—in other States the Minister to whom the charge of agricultural affairs is assigned—of any alterations in the articles of association, in methods of valuation, and in business regulations."* The officials of the Association usually have authority to sign certain public documents, and have a status similar to that of those employed by the Provincial authorities.

The Associations vary much in constitution, but each has a General Assembly and Select Committee, both being elected bodies. The business is carried on under the control of these bodies, and under the supervision of the Royal Commissioner, by a Board, consisting of a Director-General, members representing different districts, and non-voting legal members, termed "Syndics," who are permanent paid officials, and carry through all legal formalities connected with the work of the Association. There are also local Directors for the various divisions of the area of the Association, and District Committees by which Councillors are elected to assist in the valuation of properties and in the supervision of mortgaged land. Four of the five old-established *Landschaften* have an entirely decentralised administration; while two Associations in Hanover issue their loans in cash instead of bonds. Eight Prussian Associations are affiliated to a Central Association which was established in 1873 in order to open a wider market for the bonds of the provincial Associations; this central body seems, however, not to have met with the success hoped for, owing mainly to the unwillingness of the provincial Associations to relinquish any of their independence, and to the fact that the market for the bonds of these Associations has always been chiefly provincial.

The procedure of Landschaften in the making of loans.

841. A landowner becomes a member of an Association when he borrows from it on the security of his property, and he ceases to be a member when the mortgage has been redeemed. The *Landschaft* cannot refuse to lend to a landowner who fulfils the conditions of the articles of association, and must, if asked, give a loan to the amount to which the valuation of the borrower entitles him; the object on which the loan is expended does not concern the Association. The Association undertakes at cost price any enquiries necessary on behalf of an applicant, and should a loan be sought for beyond the proportion usually granted without a special valuation, the Association will carry out the valuation (as a rule, at the borrower's expense). The scale of charges is in some cases calculated on the basis of the land tax, while in other cases no charge is made for valuation expenses, these being met out of a general compensation fund, raised by a charge of one-sixth per cent. per annum to the borrower. Some Associations charge an entrance fee, fixed according to different standards. Payments towards cost of administration are also made by borrowers, these payments varying much in amount and method of calculation; usual charges are from one-tenth to one-quarter per cent. per annum on the loan.

The borrower receives, save in a few Associations, payment in bonds, instead of cash; he can sell these in the market, or offer them to a Loan Bank (where the Association has established these institutions), which sells them or lends him money upon their security. Borrowers can select their own rate of interest. The rates usually open to them vary from 3 to 4½ per cent.; the rate is generally from ½ to 1 per cent. higher than that paid by the *Landschaft* to its creditors. The most general rate is 3½ per cent. The lower the rate of interest, the smaller, of course, the sum the borrower obtains by selling the bond; but he must pay interest and sinking fund instalments calculated upon the nominal amount of the loan, even though the market price of the bond be much below par. He can repay the advance borrowed by repurchasing bonds and returning them to the Association. If he sells when the bonds are above par, since he need only repay the nominal value, he gains the profit of both discount and premium. Naturally the Associations themselves buy in their own bonds at a low price when possible.

See para. 834.

We have pointed out the hardships to which Irish farmers are often subjected by the unexpected calling in of mortgage advances, sometimes without the lender's knowledge. A most useful feature of the *Landschaften*, in view of the special characteristics

* Report on Agricultural Credit and Co-operation in Germany, p. 6.

of agricultural credit, is the fact that their loans are not, as a rule, subject to recall, provided the farmer fulfils his obligations: while he, on the other hand, is entitled to repay the advance on giving notice. But if a borrower allows his property to decrease in value through defective farming methods, neglect to insure buildings, etc., the whole or part of the loan may be recalled. Usually 5 per cent. is charged upon arrears in payment, a defaulter not being at once proceeded against for recovery of the loan under the summary powers of compulsory administration and sale possessed by the Association.

Limits of Advances made by the Landschaften.

842. Most of the Mortgage Credit Associations of Prussia now lend up to two-thirds of the valuation of the property of the borrower upon first mortgage, but outside Prussia the limit is usually one-half. The chief basis of valuation for loan purposes is the land tax assessment, or else a special assessment by the Association, which takes into account the actual yield of the property. The increase in the value of arable land, since the assessment for the land tax, being very considerable, the *Landschaften* now add a certain percentage to the multiple of the net yield above referred to, when the owner of such land applies for a loan, so as to enable larger credit to be given. These additions vary from 5 to 50 per cent.

The grounds considered by the Brandenburg Credit Institute as justifying the granting of this extended credit to farmers in certain cases are worth quoting here, as showing the care taken in this form of rural credit to make the funds advanced an encouragement to improved farming by the borrower. "(1) Exceptionally convenient situation (*e.g.*, near railway, etc.) or with good adjacent markets; (2) advantageous consolidation of the property; (3) well situated and well-built dwelling and farm buildings; (4) exceptionally good proportion of meadow and pasture lands; (5) permanent facilities for procuring copious supply of natural manures elsewhere than on the estate; (6) proper drainage system; (7) essential improvements or transformation effected in the farm and in farming operations since the assessment for land tax (this assessment dates back about 50 years)."

Repayments on sinking fund principle.

843. The rules as to payment of sinking fund instalments differ much in various Associations. The amortisation principle was not in force until 1821, and has in several Associations been abandoned for a time, and subsequently re-adopted. Usually the sinking fund contributions are placed in a special fund, and not applied to the immediate reduction of the borrower's debt. Most Associations permit a borrower to withdraw the accumulated contributions, or they grant fresh mortgages equal to a fixed proportion of a cancelled mortgage, the idea being to prevent the borrower looking elsewhere for credit, probably on less favourable terms. These methods, of course, prevent the removal of indebtedness, and various remedies have been suggested. Some authorities believe that the object of the Government in instituting sinking funds in the earliest Associations was merely to increase the security of the bonds by creating a sort of reserve, not to lessen the debt of the borrowers. The minimum annual amortisation payment usually varies from $\frac{1}{2}$ to $\frac{3}{4}$ per cent., but a borrower can covenant for larger annual payments, and can, on giving due notice, make further contributions or repay the entire advance.

THE COMPARATIVE FAILURE OF THE LANDSCHAFTEN TO REACH THE SMALLEST LANDHOLDERS.

844. The question of the extent to which the *Landschaften* succeed in lending to the smaller classes of farmer is one of special interest and importance when considering the desirability of introducing the system into Ireland. Only owners of large properties in Germany, were, as we have seen, originally admitted to membership. Later on smaller owners were admitted to some Associations or to special organisations established for them. But it is still necessary that a member should possess property of a minimum net yield, as assessed for land tax, or a fixed minimum valuation. The minimum net yield has been fixed at various figures, and has been considerably lowered of late years. It now stands at £2 10s., £3, £3 15s., £4 10s., etc., according to the Association: while in Silesia it is as low as 15s. Properties of the minimum value of £75 are eligible for loans under the

* *Report on Agricultural Credit and Co-operation in Germany*, p. 12.

East Prussian Association, while the minimum of the West Prussian Association has been reduced from £220 to £150, and that of the Posen Association from £750 to £150. The Württemberg Credit Association, which lends up to half the value of the property, reduced its minimum loans in 1902 to £15, while the Bavarian Agricultural Bank, which lends also up to half the value of the property, has a minimum loan of £25. The available figures * giving the classifications by area of the holdings upon which loans were advanced by certain of these Associations show that a considerable proportion of small owners were enabled to take advantage of credit facilities provided. Thus the New Brandenburg Credit Institute, intended mainly for small holders, had, in the year 1910, 10,345 loans outstanding, amounting to over £7,000,000. These were classified as follows :—

Acreage of Properties.		Number of Properties lent upon.		Total Value of Loans.
				£
Under	12½	...	284	56,440
12½ and under	50	...	3,571	1,236,980
50	125	...	4,252	2,530,070
125	187½	...	1,340	1,246,750
187½	250	...	464	623,520
250 and over	434	1,454,880
		10,345		£7,148,640

It would appear, therefore, that 37 per cent. of the transactions, and 18 per cent. of the value of the advances affected holdings under 50 acres in size. The average loan made on the security of these smaller holdings was £333, the average loan for all sizes of holding being £691. (The estimated average amount of charge placed on each registered holding in Ireland charged during certain months of 1912 was £277, while £215 was the estimated average amount of charge at each transaction.) The average loan advanced by the Credit Association of Württemberg (a country of small holders) on rural property, and outstanding in 1911, was £241.

Para. 809.

Efforts of some Landschaften to meet Needs of Smaller Farmers.

845. The Bavarian Agricultural Bank in 1911 made 2,870 loans on mortgage, of which 7·8 per cent. were of £50 and under; 30·3 per cent. were between £50 and £150; the remainder being over £150. More than half of the total loans were made on properties not exceeding 25 acres in size. To save the peasants the trouble of going to a central office, a *Landschaft* often sends employees to the villages, giving previous intimation of their visits. These officials give the farmers information gratuitously, and receive applications for loans.

It is evident that some of the *Landschaften*, in recent years especially, have dealt to a fair extent with the credit needs of small holders; but the great majority of the advances made, even by the Associations specially intended for the smaller agriculturists, amount to at least £250, and many of the loans are from £500 to £1,000 and over. Some Associations endeavour to assist the small proprietors by lending to a higher percentage upon small than upon large farms, and by including dwellings, farm buildings, and live stock in the value of the former.

The conclusions arrived at by Sir F. A. Nicholson, the grounds for which are set forth at length in his well-known Report, were that “the *Landschaften*, whether old or new, whether for the nobles only or for all classes, are unable to grant small mortgages, notwithstanding their limited area of operations, their numerous agencies, their cheap administration and absence of dividends, their various privileges, and the perfection of the Prussian land registration system; in other words, the direct statement of the German Minister of Agriculture and of others that land banks, pure and simple, cannot supply funds to the ‘small fold’ is absolutely correct.” † The Government Agricultural Reports referred to were issued in the years 1883-7, and definitely stated that the *Landschaften*, though good for fairly well-to-do persons, had helped the small folk to a very limited extent, and did not, as a rule, reach below farmers who owned “team-requiring” estates (*i.e.*, estates not below 18 acres, and averaging from 34 to 61 acres). In fact, the loans granted did not even reach the lower ranks of the “team-requiring” estates.

* See *Report on Agricultural Credit and Co-operation in Germany*, pp. 10-11.

† *Report on Land and Agricultural Banks* (Madras), 1895, p. 66.

Although in the thirty years which have since elapsed some of the *Landschaften* have much extended their dealings in small advances, we believe that, taking the operations of these institutions as a whole, the above official description is still substantially accurate.

SUMMARY OF ADVANTAGES OF LANDSCHAFTEN.

846. It is unnecessary for us to emphasise the obvious advantages of these organisations in meeting the long-term credit requirements of agriculturists. These advantages have been succinctly set forth as follows by Mr. Cahill :—“(1) They enable landowners to mobilise, as it were, their landed possessions by the creation of bonds passing into the general system of securities ; instead of only being able, like English landowners, to provide a mortgage security of very restricted currency, German landowners have the advantage of being able to convert a mortgage charge into a security realisable at any time in the general market. (2) The loans granted are not subject to recall. (3) The rate of interest is as moderate as possible, being as closely as possible related to the prevailing market rates for money. (4) The bonds being irredeemable by the holder, the rate of interest may not be raised. (5) The right is conceded to reduce the debt by payments made at the mortgagor's convenience. (6) The necessary extinction of the capital debt is accomplished gradually. (7) The costs for valuation and other charges are low. (8) Their administration is at once relatively inexpensive and their office-holders highly qualified for their work.”*

To these advantages we may add the following :—the bonds of the *Landschaften* permit of a method of safe investment for poor as well as rich ; the Association, unlike an ordinary Bank, can never have deposits lying temporarily idle, nor need it fear to grant loans for prolonged periods, since the debentures are practically synchronous with the loans ; there is no risk of a “run on the bank” in case of a panic ; and investors are in a position to obtain their money at will. In view of these characteristics, it is little wonder that this type of real credit organisation has attracted so much admiration—“the invention of these debentures seems to be a most fruitful and useful conception, and a source of wholly undreamed of possibilities.”†

The fact that both the directors and the local representatives are themselves landowners and borrowers ensures that the needs and capacity of the borrower and the value of his land are well known—a striking point of resemblance between the *Landschaften* and the smaller Credit Societies : while the knowledge gained by the farmer as to the exact value and properties of his farm must be exceedingly useful. In hardly one of the above-mentioned respects, it may safely be said, could the ordinary commercial banking institutions of any country meet the farmer's needs to anything approaching the same extent.

Other forms of Mortgage Credit Institutions in Germany.

847. We do not think it necessary to consider in any detail the various other forms of real credit organisations found in Germany. Some of these concerns do a very large business in making advances to farmers. Thus the 16 Mortgage Credit Banks have £100,000,000 outstanding in loans, about half being lent on mortgage security ; most of them obtain funds by the issue of bonds, but pay loans in cash to borrowers. They have done much for the medium and small holders, loans so low as £2 10s. being given by one Bank, and £15 by several of them. The rates of interest, sinking-fund payments, &c., resemble those of the *Landschaften*. There are in addition 37 Joint Stock Mortgage Banks, which are commercial concerns, being associations of lenders and not of borrowers. Only about 6 per cent. of the huge amount outstanding in loans in 1911 (£554,870,000) was concerned with rural estate mortgages. Loans are made, as a rule, in cash.

The German Savings Banks are exceedingly important rural credit institutions. They had about £170,000,000 invested in rural mortgage in 1910, or approximately the same amount as the *Landschaften*. Their deposits amounted to £840,000,000. They are, above all other organisations, the sources of mortgage credit for small and medium farmers, especially in Western Germany. Being in the immediate vicinity of the farmer, they encourage personal touch between lender and borrower. “For the small farmer

* *Report on Agricultural Credit and Co-operation in Germany*, p. 15.

† *Report on Land and Agricultural Banks*, 1895 (F. A. Nicholson), p. 97.

See paras. 124-5.
361-5.

Paras. 127-130.

the procedure proves far simpler than when bonds have to be obtained and marketed, and other formalities satisfied, as in the case of the *Landschaften*. Their disadvantages consist in a higher rate of interest, liability to a rise in the rate or to the recall of the loan, and the limited facilities for reducible mortgages.* We have referred elsewhere to the unique position of these German Savings Banks as deposit institutions, owing largely to the absence of Post Office Savings Banks and of highly-developed joint-stock deposit banks. We have also shown how improbable it is that permission would be granted for the funds of the Post Office Savings Banks of Great Britain or Ireland to be utilised for rural credit purposes; while our terms of Reference exclude presumably from our consideration this form of State assistance.

The Crédit Foncier of France; its comparatively small proportion of loans on rural property.

848. We do not think it needful to consider in any detail the possibility of applying the principles of the famous real credit institution of France, the *Crédit Foncier*, to the treatment of Irish rural credit problems. It is a company limited by shares, and was formed by the fusion of several companies by a decree of 1852, which conferred upon it the monopoly of land credit in France: it is thus virtually a Real Estate National Bank. Its Statutes have been modified from time to time.

It was subsequently constituted for a period of 99 years from 1881, and has 84 branches. Its long-term loans are advanced for terms of from 10 to 75 years, in cash or in bonds, at the choice of the contracting parties; usually they are made in cash, up to half the value of the real estate mortgaged (save in the case of vineyards and forests, where the limit is one-third). Interest at present is at the rate of 4 per cent. Some of its regulations closely resemble those of the *Landschaften*. It has undoubtedly done much for long-term credit, but its operations have been chiefly concerned with urban rather than rural property. Thus from the year 1853 to 1911, only 21 per cent. of the total loans advanced were on rural property, 79 per cent. being on urban property. M. Ruau, Minister of Agriculture, in a speech made in Paris in 1909† pointed out that the advances made on the security of rural property by the *Crédit Foncier* were on the decline, the amount having fallen from 35 million francs in 1901 to under 22 millions in 1909.

Your Committee observe, however, that the figures rose to almost 32 million francs in 1910 and to almost 47 millions in 1911 (comprising 1,856 loans), the latter being 25 per cent. of the total loan operations of the institution.‡ The injury and financial loss caused to farmers by the inundations of the year 1910 in France appear to have been the main cause of this increase in the rural loans; but there is no reason to suppose that the slight upward movement in these years indicates any permanent feature in the lending business of the *Crédit Foncier*, tending to bring it more within the reach of agriculturists. The average rural loan granted in each of the five years ended 1911 was £906, £860, £750, £740, and £1,000. Almost twenty years ago Sir F. A. Nicholson wrote: "It is clear that the *Crédit Foncier* has not only not reached the small rural properties, but fails to do so in an increasing degree;"§ and the words seem equally true to-day.

In a book published a few years ago in France|| upon the work of the *Crédit Foncier*, the authors aim at proving that this organisation, founded to assist owners of real estate, and rural owners in particular, has failed in its object.

The French law of 1906 authorising long-term loans to agricultural co-operative Societies, together with the law of 1910 which enabled credit Societies to deal in long-term credit on personal security, have done something in recent years to put long-term loans within the reach of the smaller agriculturists, though much yet remains to be done. But the large part borne in these arrangements by advances made through the agency of the State—advances which too often are treated by the Regional Banks as if they were permanent grants¶—render them unsuited, in our opinion, as a solution of the difficulties of long-term credit in Ireland, apart altogether from the fact that our terms of Reference would exclude this method of treating the problem by financial assistance from the State.

Paras. 592-4.

* Report on Agricultural Credit and Co-operation in Germany, p. x.

† See *Bulletin de la Société Nationale d'Agriculture de France*, Vol. 69, p. 275.

‡ *Bulletin of Econ. and Social Intelligence* (Rome), August, 1912, p. 165.

§ Report on Land and Agricultural Banks, 1895 (Madras), p. 115.

|| *La Vérité sur le Crédit Foncier de France* (A. et L. Ordioni), 1911.

¶ See *Le Crédit Agricole en France* (H. Sagnier), 1911, pp. 135-151. The objections to any considerable State advances of this nature are referred to in paras. 579-598 of our Report.

QUESTION OF INTRODUCING LAND CREDIT ASSOCIATIONS INTO IRELAND.

849. After a careful consideration of the principles of the various real credit institutions of the Continent, including those of Austria-Hungary, Belgium, &c., your Committee consider that the type of organisation which might, given certain conditions, possibly offer some promise of success in Ireland would be one resembling the *Landschaften* of Germany. We must, however, make clear that, in our opinion, absolutely essential conditions for the establishment and working in Ireland of a Mortgage Credit Association of this, or indeed any other form, would be a completed system of registration of title of all land; the vesting of full powers of summary procedure in the Association, enabling it to take action against defaulters without the delay and expense of Law Courts; and finally, State supervision and control. Each of these conditions exists in Germany, and without them we consider the task of creating similar organisations in Ireland would be foredoomed to failure.

We observe that Mr. Henry Wolff, who has had long personal acquaintance with the work of the *Landschaften* of the Continent, expresses the opinion in a recent work that such institutions would not be practicable in the United Kingdom "owing to our land laws and the trouble connected with establishing a title. . . . Their system would be quite inappropriate to this country. There is accordingly no need to enter further into their organisation."* In a previous work, however, Mr. Wolff did not close the door so firmly, for he wrote :—" I leave it to others to determine whether it would, or would not, be advisable to transplant an institution which has rendered such valuable service abroad into our country. It is a long time since I was told by some landlords in Ireland that some such convenience would prove a boon indeed to their own island. And there is mortgaged land in England and Scotland as well. The question of title can scarcely arise. For land is mortgaged now. And the same security which actually satisfies the cautious solicitor of a cautious capitalist is likely also to satisfy a co-operative society. If there were to be *Landschaften* created among ourselves, no doubt solicitors would lose; but landowners would gain very substantially. And if such lending institutions could be made sufficiently popular, they might prove a most useful help in the creation of that small proprietary which most of us now profess ourselves anxious to see established."†

See paras. 691,
705, 789-853.

NECESSARY CONDITIONS FOR ESTABLISHMENT AND SUCCESSFUL WORKING OF LANDSCHAFTEN.

(a) Complete system of Registration of Title.

850. The vital importance of a satisfactory system of registration of title as a pre-requisite for the introduction of an improved real credit system into Ireland has been pointed out by Mr. H. de F. Montgomery, D.L., who states :—" No institutions whatever can provide our landowners, large and small, with agricultural credit in as convenient and economical a form as do the *Landschaften*, *Kreissparkassen*, *Raiffeisen* credit societies, &c. &c., till our embryo system of Local Registration of Title is developed and brought to the same state of perfection as the German *Grundbuch*."‡ Your Committee have been much impressed by the cumulative evidence from many quarters as to the hopelessness of proceeding with any rural credit scheme based on the security of land, until a system of registering and making easily ascertainable the exact title of each owner has been first satisfactorily established. For instance, we note that at the conclusion of an able article on " *La Dette Hypothécaire* " of France and other countries,§ M. E. Besson complains of the many uncertainties of title and of records in the French system, and urges the immediate adoption of the Registry of Title methods which have proved so successful in Germany, Australia, and elsewhere.

From what we have said when dealing with the discharge of equities in Ireland, it is clear that under existing conditions a considerable period must elapse before the titles to Irish land can show anything approaching the completeness of registration and the facility of verification which have done so much to make the security of land in some other countries so easily negotiable in the market.

See paras.
788-793.

* *Co-operation in Agriculture* (1912), pp. 271-3.

† *Co-operative Banking* (1907), p. 277.

‡ *Notes on Agricultural Co-operation and Co-operative Agricultural Credit in Germany* (Bulletin No. 2, Department of Agriculture and Technical Instruction for Ireland), p. 7.

§ Article on " *La Dette Hypothécaire et les résultats des Institutions de Crédit Foncier en France et à l'étranger*," in *Journal de la Société de Statistique de Paris*, December, 1900.

(b) Powers of Summary Procedure.

851. The necessity for a Mortgage Credit Association on *Landschaften* lines being given large powers of summary procedure against defaulters without the intervention of the Law Courts is, we believe, too often overlooked in the consideration of this question. It has been rightly emphasised by the delegate of the United States to the International Institute of Agriculture at Rome, who, in discussing the suitability of these organisations for the United States, writes :—"Substantially, the *Landschaft* in all this has the power of final decision vested in a supreme court. If no such power can be granted, then it would be unsafe to have a *Landschaft* in the United States : in fact, we could not have it, for the purpose of the *Landschaft* is to secure long-time loans with amortization at 3, 3½, and 4 per cent., and this interest rate would double or treble itself as soon as doubt as to the validity of titles and other questions between borrower and lender would be considered admissible. The *Landschaft* in Prussia has no such questions to contend with. The *Landschaft* directors foreclose without recourse to law-suits. Their decision is final."*

The difficulties in obtaining necessary legislation conferring these powers would, to say the least, be serious ; while, assuming that this barrier had been safely negotiated, there would remain the difficulties associated with the realisation by creditors of land security in the case of farmers who might fail to repay their mortgage debts. The old, unhappy history of the Irish land question has greatly accentuated these difficulties in this country, a fact to which reference is made by us when dealing with the extreme reluctance of Irish Joint Stock Banks to accept sole mortgage security for advances. Possibly this drawback might be somewhat diminished when the creditor, as in the case of the *Landschaften*, would be an Association composed mainly of farmers themselves ; but it would still, we believe, be a serious factor in the problem.

Para. 830.

(c) State Supervision of Mortgage Credit institutions.

852. As regards the need for the supervision of the operations of any Mortgage Credit Association in Ireland by the State, we believe that such supervision and responsibility for seeing that satisfactory audit arrangements were made would be essential if the confidence of the public in bonds issued on the security of Irish land were to be won. We have already indicated the measures of control exercised in Germany by the State over these Associations through the Governors of the Provinces, under the final supervising authority of the Minister within whose jurisdiction the agricultural affairs of the Province lie. "It is the safeguarding, the rigorous safeguarding, of this system by the Prussian Government that gives the bonds the high value they have in the open market and which makes them saleable at the low rate of interest which is paid on them. Remove this Government safeguard and the bonds will slump in price at once, and the interest would have to be doubled or trebled before they would sell. In fact, such bonds would not sell at all, for a bond in the open market, subject to the law of a certain district administered in that district, may only have a limited and a local value. Such a bond would not be liquid : it cannot be liquid, and to attempt to make it so would but invite ruin."†

Para. 840.

Similar Governmental action is found in many other countries. "The State has in all cases been the initiating power ; either by direct fiat as in the *Landschaften* ; by favouring legislation as in the *Crédit Foncier* of France ; or by direct organisation. In all cases the State has assumed powers of supervision, varying from direct management in the case of the State banks, and from large controlling and directive powers in the case of the *Crédit Foncier*, to that of supervision, and the receipt of returns and reports, as in Italy, with an intermediate stage of supervision, and even control by means of a State Officer appointed *ad hoc*."‡

The peculiarly close connection between the State and Irish land, as a result of the land legislation of the past forty years, and the fact that the State will for a considerable time to come be virtually the landlord, would, in any case, render it inevitable that State supervision should be established over any scheme of real credit dealing on a comprehensive scale with Irish land as security for advances to farmers.

* "The *Landschaften* System of Rural Credits." Senate Document No. 123, p. 4.

† *Ibid.*

‡ *Report on Land and Agricultural Banks* (Madras), 1895. p. 120.

In spite of the growing extent to which the German *Landschaften* have modified their methods by decentralization and otherwise so as to include the smaller farmers, we consider that the available information, some of which we have already quoted, proves that these Associations cannot as yet be considered agencies entirely suitable for the smallest classes of agriculturists, admirable as they are for the medium and larger farmers. This is a consideration which must be given due weight in its bearing upon Irish rural credit problems—problems which, as we have seen, are chiefly concerned with the financial position of the small tenant-purchaser, rather than of the larger landowners..

PRESENT LONG-TERM CREDIT FACILITIES IN IRELAND.

853. From our examination of the aid given by State advances and grants to Irish farmers, it is clear that much has been, and is being done in this way, especially for the long-term credit needs of the newer holders. The care taken to select suitable persons, possessed of some capital, as migrants or as holders of enlarged estates, both by the Estates Commissioners and by the Congested Districts Board in their land settlement operations, has also considerably diminished but not removed—the pressure of the problem as to an adequate and safe supply of credit and capital in these cases. The Land Loan system of the Board of Works, useful in many respects, has—with the exception of the farm building scheme—not shown itself in recent years adapted to the needs of the smaller farmers in search of long-term loans for the improvement of their land or similar purposes. Difficulties as to proof of title, initial expenses, and the comparatively high minimum limits to the loans have combined, as we have shown, to prevent this system being utilised by farmers to any considerable extent. (Some of the Congested Districts Board loan schemes have similarly suffered much through difficulties of title). The Joint Stock Banks are admittedly more adapted in their methods for the requirements of the larger and medium farmers, although they have of late done much to reach the smaller men; but they cannot from the very nature of their banking methods deal to any extent in long-term loans to any farmer, whether of the large or small class. Paras. 659-691.
Para. 705.
Paras. 51-63.

Need for credit facilities among tenants and among landholders who have purchased direct.

854. Our investigations in regard to long-term credit in Ireland have led us to the conclusion that there is often much more real need for credit facilities amongst the many small farmers who have not yet obtained the ownership of their land, or who have done so by direct sale between landlord and tenant, than among those who have been settled upon their new or enlarged holdings under the supervision of the State Department concerned, and who have obtained loans or grants for land or house improvement or for the stocking of their holdings. The increased energy usually shown by those who have recently become owners of their land, and their desire to strengthen their position, naturally tend to place them at a further advantage as compared with those who have not the incentive of ownership to stimulate them. We do not propose to touch upon the much-debated question of the relative merits of ownership *versus* tenancy of the soil; in Ireland, at any rate, there is no difficulty in deciding as to which system, in view of past history, is the better adapted to the country's condition, or is the more desired by the farmers themselves. The striking contrast between the general position and outlook upon life of tenants who have purchased their land and of those who have not yet done so was frequently referred to by witnesses at our Inquiry.*

* The following gloomy prophecies in regard to small owners in Ireland are contained in an article by the Right Hon. M. Longfield, late Judge of the Landed Estates Court in Ireland, on "*The Tenure of Land in Ireland*"; *Cobden Club Essays* (1870). "It has been supposed by many that a beneficial change might be produced in the condition of Ireland by creating and keeping up a large body of peasant proprietors. . . . I shall not enter into much discussion respecting the utility of such proprietors, because I believe it would be very difficult to create them, and impossible to keep them up in such a country as Ireland. When they have long existed they may continue for a little longer and be sustained by habits and feelings traditional in the families. But such habits and feelings cannot be created by any law, and they are inconsistent with the mental activity of Irishmen. . . . In general the proprietor would not wish to remain a peasant. . . . He can scarcely make a more unprofitable use of his estate than by occupying it himself as a peasant proprietor. Of course if you take a peasant of forty years of age and make him suddenly a proprietor, although he may emigrate he cannot readily betake himself to any other pursuit. But his sons will not remain on that farm." (pp. 28-9, 1876 Edition).

Inter-relations of mortgage and personal credit.

855.. The close connection which exists between long-term mortgage credit and short-term personal credit is not always recognised. It is convenient to treat of them separately, as we have done in our Report; but their inter-relation should not be thereby overlooked. Although Credit Societies in giving loans to their members do so nominally on personal security, there is in such cases an "implicit" estimate of the assets of the borrower and of his sureties in the event of his failing to repay in due course. It is therefore clear that if the land of a country be mortgaged to such an extent as to leave little margin of indirect guarantee for personal credit, the operations of co-operative credit Societies would be materially affected in several directions. It would, for instance, be much more difficult for small borrowers, whose land is mortgaged, to obtain sureties when seeking loans, and thus the reproductive circulation of a Society's capital would be diminished.

Depositors, again, would naturally be much more reluctant to entrust their savings to a Credit Society, whether on the unlimited or limited principle, the bulk of whose members were known to have a burden of mortgage debt upon their holdings. The importance of this relation between personal and mortgage credit was, we note, dwelt upon by the General Federation of Agricultural Co-operative Societies of Austria in their Memorandum* to the Ministry of Agriculture upon the Government Bill for the Dismortgaging of Rural Land submitted for their opinion in 1910. This Memorandum points out that "already, in many countries, for some time attempts have been in process to substitute the system of personal credit in part for that of credit on mortgage, completing the latter by more extensive organization of personal credit which is generally less dangerous for agriculture."

With this preference for a development of personal credit, as against mortgage credit, where such course is feasible, your Committee are in full agreement.

Reasons in present rural economy of Ireland for discouragement of Mortgaging.

856. The widespread reluctance of the new proprietors in some districts in Ireland to mortgage their farms is, in our opinion, a very favourable feature of the new rural economy now being created, and one which if it was universal would promise well for the avoidance of the dangers of over-indebtedness. We cannot estimate how far, if at all, the objection to burdening their land would affect the general attitude of the new holders, as a class, towards a Land Mortgage Credit Association, if such were to be proposed, even allowing for the fact that the principle of a long-term *Landschaft* mortgage based on the united security of the land of all the members, and repayable in small sinking fund instalments, is very different from that of an ordinary mortgage founded on the definite assignment of a certain holding.

Your Committee believe, on the whole, that the history and exceptional circumstances of land tenure and legislation in Ireland, and the promising solution of the agrarian problem which is now proceeding as a result of the Purchase Acts, furnish a strong argument against the introduction in the near future of any extensive scheme of land mortgage credit, even assuming that the necessary preliminary foundations for such a scheme had been laid.

Necessity of making most of the soil by work rather than by borrowing.

857. We are convinced that, generally speaking, the attention of the new holders should be drawn away from, rather than in the direction of mortgaging their land, and that their thoughts should be concentrated upon making the most of the soil by honest effort, rather than upon the pledging of their holdings for the supply of capital. Even if a loan of £200 were available for a farmer for, say, the purchase of live stock, it is probable that in most cases it would be more prudent, and in the borrower's own truest interest, that an advance of £50 a year for four consecutive years should be made, rather

* *Opinion of the General Federation of Agricultural Co-operative Societies of Austria communicated to the I. R. Minister of Agriculture upon the Bill for Dismortgaging or the Manner of Granting Mortgage Loans to the owners of medium-sized estates* (summarised in *Bulletin of Bureau of Economic and Social Intelligence*, Rome, March, 1912, pp. 143-9).

See paras. 678, 833.

Para. 755.

than an immediate advance of £200, thus helping to impress upon him the value of thrift, and how best to use his limited capital. Few of the small farmers, especially those migrated from uneconomic holdings, could, we consider, be wisely entrusted with comparatively large amounts of ready capital; but even where there would be little or no risk, we consider that the balance of advantage distinctly lies on the side of several loans of moderate amount. That habits of thrift rather than of borrowing are best inculcated in the early stages of the growth of a peasant proprietary is a sound view strongly supported by several competent witnesses at our Inquiry.

Possibility of a Mortgage Credit Association eventually becoming desirable in Ireland.

858. The facilities which could be afforded by an extended and improved system of Co-operative Credit Societies for loans for current expenditure, supplemented by long-term loans under the Board of Works' Land Loan system, and by a further development of the lending schemes of the Department of Agriculture and Congested Districts Board, should in most instances suffice for the reasonable credit requirements of the ordinary small or medium farmer. But unless the Regulations governing the Board of Works' Land Loan schemes can be altered so as to meet more widely the long-term credit needs of the smaller farmers, in the directions suggested in our Report, we believe that the question of establishing some real credit organisation on the lines of the *Landschaften* will probably come up later on for further consideration, especially as the progress of registration of titles and the discharge of equities will gradually diminish the difficulties in at least one direction. But no such experiment, we think, is called for until the fullest possible test has been given to the various recommendations contained in our Report in favour of modifications and improvements in the existing sources of long-term credit for the Irish farmer, and the wider development of personal credit facilities for farmers through Co-operative Credit Societies.

See paras. 660-694.

CONCLUSIONS IN REGARD TO MORTGAGE CREDIT.

859. Our conclusions upon the subject of Mortgage or Long-term Credit may be summarised as follows :—

(a) While the precise facts as to the extent and effect of mortgaging of land are difficult to ascertain, and while the relative indebtedness of small as compared with medium and large farmers has been at times exaggerated, there is no doubt as to the existence of a heavy burden of mortgage indebtedness in most, if not all, countries of small holders. Paras. 766-80.

(b) The tendency of a peasant proprietary to incur undue indebtedness constitutes a real danger from which the new tenant-purchasers in Ireland should be, as far as possible, safeguarded.

(c) At the same time the desirability must be recognised of enabling farmers in suitable cases to obtain, without undue difficulty, advances upon the only security which they are in a position to offer for long-term loans, *i.e.*, that of their land.

(d) A complete system of compulsory registration of title to land is indispensable for the establishment of a sound real credit system. While much has already been done in this direction in Ireland, a considerable time must elapse before the system of title to land can be considered as fulfilling the necessary conditions. The expediting of the full discharge of equities calls urgently, therefore, for careful consideration. Paras. 782-93.

(e) Approximate estimates sufficiently prove that a large amount of rural mortgaging takes place in Ireland. The annual total charge placed upon land bought under the Land Purchase Acts bears a fairly constant relation to the amount of such land, but has recently slightly risen. A large proportion of mortgaging transactions concern holdings under 30 acres in extent. Paras. 794-810.

(f) Combining the estimates for the indebtedness of both registered and unregistered land, and allowing for transactions where the deed of charge has not been registered, and also for the annual releases of mortgages, it is safe to estimate that the net rural indebtedness of Ireland is increasing annually by about £1,000,000. Para. 811.

Paras. 813-22.

(g) The limitation upon the power of mortgaging imposed by Section 54 (3) of the Land Act of 1903, although complained of by some witnesses as unduly handicapping a farmer in obtaining capital upon the security of his land, seems on the whole a desirable provision against indebtedness, especially as the Land Commission have power to allow the limit to be extended in approved cases.

Paras. 825-9.

(h) It is extremely regrettable, in our view, that "judgment" mortgages should be treated as outside the scope of the statutory limitation upon mortgaging contained in the Act of 1903. By simple collusion between a debtor and creditor, the wise intentions of the legislature can be entirely nullified.

Paras. 830-2.

(i) The Irish Joint Stock Banks are, for various causes, reluctant to lend on mortgage security alone, or for long terms; this is an inevitable consequence of the constitution and banking methods of these commercial concerns in all countries.

Para. 834.

(j) The practice amongst certain solicitors in Ireland of engaging in moneylending to farmers on mortgage security, on behalf of clients, is associated with grave abuses, one of the most serious of which is the unexpected calling in of a mortgage by the solicitor, often without the authority of the lender, thus compelling the unfortunate farmer to incur the expense of a fresh mortgage.

Paras. 823-4.

(k) The rate of interest upon mortgages seems to be, as a rule, reasonable, and to average 5 or 6 per cent, though sometimes the rate is much higher. The absence of an easy amortisation method of repayment, however, on the *Landschaften* principle, is a serious drawback.

Paras. 837-52.

(l) Although the Continental Long-term Credit Institutions of the *Landschaften* type have done much for rural credit, they are not in a position, as a rule, to meet on any considerable scale the needs of the smallest class of landholders. A complete system of registration of title, powers of summary procedure, and strict State supervision are essentials to their success. On the whole, the prospect of successfully establishing such an institution in Ireland in the near future appears small. If, however, it be found impossible for the Land Loan system of the Board of Works to be so revised as to bring it easily within the reach of the smaller classes of farmer, the question of establishing in Ireland a Land Credit Institution of some suitable type may later on become a pressing one.

Paras. 853-7.

(m) The attention of the new holders should, we believe, be concentrated rather upon making the most of their land by honest work, even with limited capital, than upon the pledging of it for the supply of funds. Advances of long-term loans of any considerable amount should, where possible, be made in annual instalments spread over a few years rather than in a single sum; habits of thrift rather than of borrowing are vital for the success of a peasant proprietary, especially in its earlier stages. The past agrarian history of Ireland and the land settlement now proceeding also point to the desirability of discouraging mortgage transactions.

Para. 858.

(n) The development and extension of the agricultural loan schemes of the Board of Works, the Department of Agriculture, and the Congested Districts Board, combined with the agency of Co-operative Credit Societies for the shorter term loans required, should, in our opinion, prove sufficient in the great majority of cases for those credit requirements of the Irish farmer which are not met by the Joint Stock Banks. The full development of these various sources of credit should be thoroughly tested before any experiment based on Continental Land Mortgage Credit organisations be attempted in Ireland.

CONCLUDING REMARKS.

860. As we have inserted at the end of each Section of our Report a Summary of our conclusions and recommendations in regard to the particular branch of agricultural credit dealt with, we do not think it necessary to attempt to give here any General Summary of such conclusions.

Our main findings will be found set forth in a convenient form in the Prefatory Note to our Report (see pp. 2-4). At the end of that Note has been placed an Index to the various Summaries of Conclusions found in the Report.

We desire to place on record our deep sense of the highly important services which our Secretary, Mr. H. G. Smith, LL.D., has rendered to us during the progress of our Inquiry. In addition to the labour of keeping the Committee properly supplied with the evidence which we required, and the very material assistance which he has given in the preparation of our Report, he has obtained for us much valuable information as to conditions in foreign countries, and has expended much time and industry in reducing it to manageable proportions.

We cannot speak too highly of the energy, tact, and ability with which he has discharged the duties of Secretary.

We have the honour to be.

Sir,

Your obedient servants,

G. MURNAGHAN,* *Chairman.*

ROBT. ANDERSON.†

W. F. BAILEY.

C. F. BASTABLE.*

T. A. FINLAY.‡

T. P. GILL.

WALTER KAVANAGH.§

R. KYLE KNOX.||

HERBERT G. SMITH,
Secretary.

DUBLIN;

Dated this 9th day of April, 1914.

* Subject to Note on pp. 376-8.

† Subject to Note on p. 378.

‡ Subject to Note on pp. 379-382.

§ Subject to Note on pp. 383-5.

|| Subject to Note on p. 386.

NOTE BY THE CHAIRMAN AND PROFESSOR BASTABLE.

Our views on the varied and complex problems of agricultural credit are expressed in the body of the Report, which sets forth the conclusions that we, in common with our colleagues, have reached.

There is, however, one recommendation not contained in the Report, which appears to us highly important for the speedy and effective development of the system of organized credit, viz., the provision of a guarantee—carefully guarded and limited—for the security of the deposits entrusted to Credit Societies.

It is hardly necessary to insist on the fact, so amply confirmed by experience, that the principal source of the fund from which the loans required by the members of Credit Societies will be supplied is—and can only be—the sums placed on deposit in those Societies.

The function of the Credit Society, like that of the commercial bank, is to act as the intermediary between those who want to borrow in order to increase their capital and those who have money which they are not able to utilize. All the apostles of co-operative credit have recognised this, and they have also seen that the promotion of thrift was quite as important as the supply of loans for productive purposes. If the Agricultural Credit Societies of Ireland are to be a permanent element in the economic organization of the country, they will have to secure the confidence of depositors holding sufficient wealth to meet the greater part of the demand by their members for loans.

We feel strongly that it is in respect to this vital point that the recommendations of our Report are likely to fail in producing the effect desired. Regulations respecting the liability of members, and provisions for thorough and complete inspection and audit, are extremely valuable in protecting the Societies against mismanagement or fraud. The supervision by trained inspectors, together with the duty of preparing adequate statements of accounts is certain to raise the standard of the officials of the Societies, and also to diffuse information respecting the true principles of agricultural credit, which will facilitate the extension of the system into new districts. We further recognize that the Department of Agriculture and Technical Instruction is by its organization and pre-existing duties peculiarly fitted to carry out this work.

But while we maintain the superiority of the arrangements recommended in the Report over those at present in existence, we cannot avoid the conclusion that the machinery of Inspection and Audit is not of itself sufficient; there must be something more to ensure an adequate development of the deposits that are the essential condition of success. Our study of the history of the co-operative credit movement in Ireland, and the evidence presented to us as to the actual state of the Societies, appears decisive on this point.

pp. 119–276.

Without entering on the field covered by the Section of our Report ("The Co-operative Credit Movement in Ireland"), we may note that deposits have formed the chief part of the loan fund of only a limited number of Credit Societies. In many cases no deposits were invited; in others the depositors were few and the amounts small. In some rare instances, nearly always traceable to the energy and zeal of an exceptional President or Secretary, the proper condition of having deposits sufficient to meet the ordinary calls of borrowers has been attained; but such cases only serve to emphasize the general existence of a very different state of things. In spite of the immense amount of zeal and organizing ability devoted by Sir H. Plunkett and his associates to the task of building up a system of co-operative credit, the results, so far as the deposit side is concerned, have been of the most meagre kind.

This failure has, we cannot help thinking, been in some degree due to the policy of assisting the Credit Societies by loans from funds at the disposal of the Department of Agriculture and Technical Instruction and the Congested Districts Board. Societies were brought into being with no other fund available for loans than the advances made by either of these State Departments. No effort was made to attract deposits, nor was any arrangement concluded with a Joint Stock Bank for an overdraft. In some cases the advance from the Department or Congested Districts Board remained in part in the hands of the Secretary of the Society. At the best, the Society was merely an instrument for distributing loans from public money. The difficulties to which this policy has led are examined in the Report ("Advances from State funds to the Co-operative Credit Movement"), and the cessation of such advances is there recommended.

T. Porter, 4412.

T. O'Herlihy,
3902–3995.

pp. 236–254.

But though the particular method employed has been shown by experience to be undesirable, we hold that its use indicates the need of assistance for the establishment of Credit Societies in the peculiar economic conditions of Ireland. The method of guarantee should, we think, take the place of the unsatisfactory one of advances.

The early stages of a Credit Society are beset with difficulties. It has to face the prejudices of people who dislike anything in the nature of an innovation, as well as the hostility of those who think that their own interests may be injuriously affected. It can only win confidence by degrees, while its operations are hampered by lack of the necessary capital. In trying to obtain funds on deposit it finds that it has to compete, not so much with the Joint Stock Banks, whose deposits come from a different class, as with the Post Office Savings Banks, which offer the great attractions of (a) secrecy ; (b) a State guarantee ; and (c) the steady rate of $2\frac{1}{2}$ per cent. interest. Under the plan recommended in our Report, the Credit Society will give a somewhat higher rate of interest, $3\frac{1}{2}$ per cent. ; but in the other respects above-mentioned the Society is at a decided disadvantage. To the small depositor, especially, security is and ought to be the most important point for consideration. Even a considerably higher yield will not compensate for a moderate increase in risk.

We therefore urge as strongly as we can, the desirability of supplying, through the agency of the Department of Agriculture and Technical Instruction, a guarantee for the payment of the smaller depositors, in the case of all Societies that fulfil the necessary conditions. We suggest that this guarantee should take the form of providing that in the case of a defaulting Society any debt due to the smaller depositors, after the liability of the members had been exhausted, should be met by the Department. The guarantee should apply only to individual deposits not exceeding £30 in amount. Moreover, the total of guaranteed deposits should be determined in the case of each Society with reference to the requirements of the area in which the Society carries on its operations. With these safeguards the chance of loss to the Department would, we feel confident, be so small as to be inappreciable ; but the confidence given to intending depositors would be of considerable value to the Societies that came under this system of guarantee. The Committee and officials of a Society would be in a position to invite deposits, while their administration would be kept up to the due standard by the guidance of the experts in charge of the work of inspection and audit.

In support of our recommendation we may refer to the views of the many witnesses who pressed on us the need of some effective guarantee for the security of deposits. The President of one of the few Societies that has been successful in getting deposits was very emphatic in his assertion of the general principle. There can be no doubt that the want of a higher security than that offered by the local Society has been a potent influence in retarding deposits by the poorer members of the community.

Rev. J. Morris,
14419.

We have considered the objections that may be raised to our proposal, and desire to treat them with due respect. Put briefly they are :—

(1). That the giving of a guarantee to the depositors in a Credit Society is unfair to the Joint Stock Banks. This contention assumes that there is some likelihood of serious competition between these two sets of institutions. Anything of the kind is hardly within the range of probability. If we suppose that a Credit Society were in full working in each Irish parish, and that the average deposits in a society came to £1,500, we get a total of about £1,650,000 ; or less than 3 per cent. of the actual deposits of the Irish Joint Stock Banks ! Thus, on the extreme assumptions of (a) the fullest development of the Credit Societies, and (b) their deposits being altogether obtained by withdrawals from the Joint Stock Banks, the effect on the deposits of the latter would be less than that shown in the fluctuations of a single half year. It is, however, hardly necessary to say that by far the larger portion of the deposits of the Credit Societies would be derived either from hoarded money or through withdrawals from the Post Office Savings Banks.

The probability is that the Joint Stock Banks would gain, rather than lose, by the fullest development of agricultural credit, secured by stimulating the growth of deposits. The real danger for the commercial banks would appear to lie in anything that excites a feeling of hostility in the popular mind against undue claims of the " moneyed interest."

(2). That the aid given in the form of a guarantee tends to weaken the true co-operative spirit, which is one of self-help, and that it leads to the undue extension of control by government officials.

We recognise that the general principle on which this objection is founded expresses an important truth. The growth of the spirit of self-help and the avoidance of continuous recourse to the aid of the State are most desirable objects, which are deserving of all possible encouragement. The point at issue is, however, different. In all modern countries the functions of the State are being extended, in many instances for the purpose of affording wider liberty for the individual. Regulation of industries, educational agencies and facilities for the exercise of thrift are prominent examples. In Ireland more particularly we have this policy adopted by all political parties. It may, therefore, be taken as common ground that State aid and direction are not to be unreservedly condemned. Each case has to be judged on its merits and in reference to the general policy of the State.

Now, it is beyond dispute that the policy pursued in economic matters in Ireland during the last quarter of a century has been one of direction and assistance. Public funds have been used to raise the economic condition of the people, and Associations have been aided in their work of improving social conditions. One of the latest instances is that of the grant made by the Development Commission to the I.A.O.S. for objects closely akin to that with which we are dealing. The old-fashioned individualist may occupy a logical position in opposing the use of State funds to promote economic development; but it cannot be argued that State grants to be administered by officials of Societies are in conformity with sound policy, while the use of equal amounts of State money under the administration of public or Departmental officials is an infringement of it. Judged by the possible liability imposed on the Department as compared with the advantages likely to result from its use, we hold with confidence that the proposal of a guarantee of the nature and with the limitations that we have indicated is thoroughly in harmony with the general policy of the State, and is not open to any objection either on the ground of interference with any form of commercial enterprise, or of weakening the spirit of self-help and private initiative which it is so desirable to stimulate by opening up a wider field for its operation.

We think it well to add that our proposal need in no way interfere with the employment as a supplementary agency of the method of an overdraft at a local branch of a Joint Stock Bank for the purpose of meeting emergencies arising from sudden withdrawals of deposits or unexpected demands for loans. This method, which has arisen naturally in the course of the establishment of Credit Societies, is convenient to all the parties concerned, and tends to keep the Societies in touch with the general movement of credit. It is none the less subordinate to the more important use of the deposits held by the Societies and should never be allowed to supplant or discourage them. In this respect, too, we feel that many of the existing Credit Societies have suffered by relying too exclusively on the overdraft obtained from a bank, a fact referred to in the Report.

Para. 448.

Finally, we may say that while we regard the limited liability form, assisted by guarantee and placed under due inspection and audit, as best-suited for the present condition of Ireland, we fully recognise that other methods of organization may prove more satisfactory where special conditions and sentiments are powerful. There is, in our opinion, room for different systems of co-operative credit, and especially for those which have come into being under the organization of the I.A.O.S. Indeed, one great advantage which we anticipate from the adoption of our complete scheme is the opportunity afforded to those who for various reasons have hitherto held aloof from the co-operative credit movement of taking part in it under new auspices. Healthy competition will prove much better than a struggle against deep-seated feelings of hostility.

G. MURNAGHAN,

C. F. BASTABLE.

NOTE BY SIR ROBERT ANDERSON, BART.

Pp. 379-382, 386.

I concur with the views expressed in the Notes of Rev. T. A. Finlay and Dr. Kyle Knox.

NOTE BY REV. T. A. FINLAY, M.A.

I am in agreement with so large a portion of the Report that I feel justified in signing it. I do so, however, with one important reservation. The inquiries of the Committee have shown that among our Irish Credit Societies the management is, in some cases, defective, owing to non-observance of the accepted rules. Defects in business management are not peculiar to Co-operative Credit Societies; nor, among Co-operative Credit Societies, are they confined to Ireland. This, however, is no excuse for mismanagement, where it exists. The Report dwells in detail on certain cases which have been brought under the notice of the Committee; it is to be hoped that its censures will have a healthy effect on those who have deserved them.

Having exposed the shortcomings of the ill-managed Societies the Report proceeds to suggest a remedy. To this, the cardinal recommendation of the Report, I am unable to subscribe. It is proposed that the Department of Agriculture and Technical Instruction should undertake the organisation and inspection of Credit Societies in Ireland—a work initiated and hitherto carried out by the Irish Agricultural Organisation Society. To give an advantage to such Societies as are organised by the Department, and such as, having been otherwise organised, may submit to its control, it is recommended that the Department should contribute to the working expenses of certain of these Societies by defraying, wholly or in part, their costs of audit. Finally the Report recommends that no Central Credit Institution should be formed by the existing Societies to provide for them those services which it is proposed the Department should offer them.

Of these three recommendations the first is fundamental, the two others are subsidiary and supplementary. I proceed to deal with them in order, and give my reasons for dissenting from them.

Organisation of Credit Societies by the Department of Agriculture.

The organisation of Credit or other Co-operative Societies is, in my judgment, a service in which a State Department can justifiably engage only where the need for such organisation is imperative, and no purely co-operative body is at hand to undertake it. An attempt on the part of State officials to supplant or to rival co-operative workers in such a propaganda must be as hurtful as it is gratuitous. To organise Co-operative Societies successfully it is essential that the organiser should have a strong personal belief in the efficacy of self-help, and a genuine enthusiasm in urging this belief upon others. Co-operation, wherever it is widely spread, is more than a policy: it is almost a creed. The history of every co-operative movement shows that it has been propagated by men to whom the doctrine of self-help was a gospel, and devotion to it a passion. Neither the conviction nor the enthusiasm can be expected in a State organiser; his office and his intervention are a negation of both. The contradiction may be tolerated where the need of co-operation is urgent and a State Department the only agency to promote it; it is wholly indefensible where a co-operative body, competent for the task and eager to fulfil it, occupies the field, and has demonstrated its efficiency. Such a body the State may encourage and assist, but this, without appropriating its functions or invading its sphere of work.

It is suggested that the activities of State organisers side by side with the officers of the co-operative body would develop a healthy rivalry which would make for increased efficiency in both. In this view I cannot concur. Co-operation is promoted by combination, not by competition; it is established by inducing harmony, not by creating antagonisms. If the argument were valid it would justify the establishment of two Co-operative Credit Societies in the same locality as a means of stimulating business activity in both bodies. By anyone with practical experience of co-operative undertakings such a scheme would be held foredoomed to failure.

Again, Credit Societies without co-operation for further purposes give their members but a portion, and that not the most important portion, of the benefits of co-operative combination. To organise co-operative credit in a district where the gombeen man is dominant, and carry organisation no further would be a poor palliative of the small farmer's hardships. It would, no doubt, permit him for a time to purchase his farm requirements for cash, but it would make no change in the price or quality of the goods. To enable him to expend his borrowed capital to advantage, and to prevent his relapse into his previous condition, a trading society which shall reduce the price of his purchases and assure their quality must supplement his improved facilities for credit. This was so obvious to Raiffeisen that he gave trading powers to the Credit Societies which he founded.

The Irish Credit Societies, being established under the *Friendly Societies Act*, are debarred from trading operations ; but they can be, and largely are, supplemented by Agricultural trading societies organised under the *Industrial and Provident Societies Act*, and the full advantages of co-operation are thus secured to the farmer. This further and necessary application of co-operative methods the officers of the Department of Agriculture cannot promote or even advise. The view of the Department, officially enunciated in the Council of Agriculture, is emphatically adverse to any use of public funds in the organising of Agricultural Trading Societies. While this view is maintained by the Department, it is inconceivable that any of its officers should encourage trading developments among the Societies he might organise ; the advantages of these he must withhold from them. Even were this view discarded, it would, as the Report points out, be inadvisable that the Department should promote organisation for trade purposes. In the controversies to which this form of co-operation has given, and will continue to give, rise it is obviously inexpedient that the Department should be involved. It would thus appear that the organisation of Credit Societies by the Department would be a hindrance rather than a help to agricultural co-operation in that wide sense in which it is of substantial benefit to the farmer's industry.

The contention that a co-operative body rather than a State Department is the most effective agency for organising agricultural credit receives notable confirmation from the action of the Development Commissioners. The Department of Agriculture applied to them for a grant with which to carry on the organisation of some minor forms of co-operation which it regarded as being non-controversial. The Irish Agricultural Organisation Society applied for a grant to be used in organising, not credit merely, but also the other forms of co-operation included in the full co-operative Agricultural programme. Under the Act by which they were constituted, the Commissioners had a free choice between the alternative proposals. Evidence and argument were submitted by the competing applicants. The Commissioners having the merits of both claims fully before them, decided that the co-operative body was the suitable agency to employ, and made the grant accordingly. Should the Department now undertake, at its own cost, the organisation of Credit Societies it can do so only as a rival to the body on whose established field of work it intrudes. The rivalry can hardly fail to lead to friction—friction all the more likely to arise if, as suggested in the Report, the Department holds out inducements to societies organised by the I.A.O.S. to transfer themselves to its care. The use of State grants by two rival bodies to carry on the same work cannot be reconciled with any tolerable theory of public economy. But this consideration apart, we shall have, in the event of friction, the anomaly of State funds employed to fortify both parties in conflict and, to this extent, to hinder the work both aspire to do.

Supervision of Credit Societies by the Department of Agriculture.

The Credit Society, like all co-operative societies, is essentially a self-help institution. The fundamental principle upon which it rests is that its members shall combine to promote their own interests by their own efforts and in reliance upon themselves. To give effect to this principle they must realise that success or failure is wholly in their own hands and will be decided entirely by their own action. On these conditions depend the moral as well as the business value of the association, its influence upon character as well as its insistent demand for sustained and earnest effort. Hence the Society, if it is to fulfil its purpose, cannot share responsibility for its work with any outside body. It may, indeed, unite with kindred associations to set up an advising and guiding authority to which all will submit themselves ; this, however, will be a creation of the societies themselves, an extension of their co-operative organisation, a genuine development of self-help. But the introduction of a non-co-operative body to share work and divide responsibility with the members of the societies is a distinct negation of the principle which underlies co-operative combination, is a menace to the self-reliance which is its breath and its life. When the non-co-operative body is a State Department the enfeeblement of the self-help spirit may be taken as assured. Under the scheme proposed in the Report, the representative of the Department, if he were, as suggested, invested with effective authority, would be conscious that the last word in all questions of business management lay with him. The same conviction would necessarily force itself upon the Committees with which he had to deal, and their sense of responsibility would decline as their sense of dependence grew. As the evidence appended to the Report abundantly proves, full responsibility for the management too often fails to stimulate the Committees of Societies to an adequate discharge of their duties ; what may be expected from them if the force of this incentive is diminished ?

Nor is there any reason to attribute to supervision by public officials a special virtue which would make good the loss. The Irish Loan Fund Societies have enjoyed for sixty years a full measure of State supervision. A Board of Control, with offices in Dublin Castle, was established by Parliament on their behalf. Ample authority was conferred on this Board to investigate all transactions of these Societies, and it was empowered to dissolve any Society which failed to observe the rules approved for the conduct of business. This elaborate system of inspection and control wholly failed to save the societies from mismanagement, neglect of rules, and consequent disaster. Half the total number have collapsed in recent years, and in regard to those which have survived, the Report recommends their transformation into Credit Societies. State supervision exercised through a public Board exclusively devoted to this function, has not availed to maintain these Societies in healthy vitality; is there any ground for the assumption that it will be more efficacious with kindred Societies when exercised through a subordinate branch of the Department of Agriculture?

Of the witnesses who appeared before the Committee with some practical experience of the working of co-operative Credit Societies, and who were prepared to accept supervision from a State Department, several explained, when questioned on the point, that they would admit such supervision only as a last resource, but would prefer, if the means were available, that it should be exercised by a co-operative body with authority from the Societies themselves. The means are now available; they have been provided by the Development Commissioners, and we may therefore count the evidence of these witnesses as against supervision by the Department of Agriculture.

The expert authorities examined by the Committee were unanimously and emphatically opposed to the intervention of State officials in the business management of Credit Societies.

Mr. Wolff in his evidence before the Committee, as in his subsequent public utterances, strongly deprecated State interference in the business of the Societies. Mr. Cahill, supporting the same view, pointed out that the German Government, though making loans to Credit Societies, has expressly disclaimed all intention of interfering in, or controlling in any way, the conduct of their business, satisfied as to the safety of its advances by a periodical audit conducted by auditors who are approved for this purpose, much in the same way as our public auditors are certified by the Treasury for the discharge of their special duties. The Government, he was careful to add, does not appoint the auditors, their appointment rests with the co-operative Unions; and it is only when the Unions fail to fulfil this necessary duty that Government interposes to fulfil it for them. Even this very carefully limited intervention will not be admitted by the Raiffeisen Societies. As Mr. Wolff explained, the Confederation of Raiffeisen Societies—the Societies that have been copied in Ireland—have repaid all loans held from the State Bank, and have transferred their accounts to a Joint Stock institution; and this with the declared purpose of removing all pretext for the interference, however restricted, of State officials in their business concerns. The continued success and the unimpeachable solvency of the members of the Raiffeisen Confederation, as contrasted with the lamentable disasters which have recently befallen another Confederation which maintained alliance with the State institution, bear testimony to the soundness of this policy.

One country cited in the Report as exhibiting an effective State supervision of Credit Societies is India. But Irish farmers have no need of the tutelage which may be advisable in the case of "unintelligent ryots" (*Report of the Committee on Co-operative Credit Societies in India*, p. 9): they are quite as competent as German or Belgian peasants to manage their own affairs; and if they are to copy foreign methods, it is from Germany or Belgium, rather than from India, they may be allowed to borrow their models.

Contribution of the Department to Audit Expenses of Credit Societies.

Under the scheme recommended in the Report the Department would not be invested with legal authority to enforce observance of rules and suitable methods of business in the Societies it might supervise. Whence, then, would its supervision have an efficacy beyond that of a Co-operative supervising body? From the superior intelligence of the Department's officers, or some special impressiveness attaching to their advice? This is not explicitly contended in the Report. But this superiority not being assumed, the only more efficacious inducement to obedience which, in the proposed scheme, the Department could offer Societies would be the suggested grant towards their expenses of audit.

The cost of audit is a necessary part of the normal working expenses of a Society; a grant for this part of the Society's business differs in no point of principle from a grant

for any other. To grants for business use, whether to associations or individuals, the Report is, throughout, strongly and rightly opposed. Why should an exception be made in favour of Credit Societies? Even to the smaller and weaker Societies, for which the Report makes this provision, doles will be as injurious as to the stronger. Their business is small in volume, the cost of audit is proportionately insignificant, and for this cost proper management should provide. The Report points out that loans from State Departments have been fatal to many of the poorer Credit Societies in Ireland: if loans at interest have had this effect, what may be expected from free grants? A grant to a Society for its audit expenses, made by a State Department, carries with it responsibility of the Department for the audit it pays for, involves consequently the interference of State officials in the management, and impairs, to the extent of that interference, the self-reliance which is the only guarantee of healthy vitality in a Co-operative Society.

There is, however, another and, in my judgment, a graver evil involved in the proposal. The offer of a contribution to the working expenses of the Credit Societies by the Department of Agriculture would necessarily operate as a temptation or bribe to them to desert the organisation in which so many of them are now incorporated, and would thus profoundly affect the solidarity of the co-operative movement. On this solidarity depends the strength of the movement as a whole, and its consequent advantages to each of the units included in it. Whatever might be the gains to individual Societies from the patronage of the Department—and I have argued that they are not to be rated highly—they would form a poor offset to the disruption and disunion which the policy recommended in the Report could not fail to introduce.

Central Institution for Credit Societies.

The advisability of providing and maintaining a Central Credit institution to which local Credit Societies shall be affiliated, which shall co-ordinate their work, assist them in obtaining loans, and in putting surplus moneys to profit, furnish them with effective inspection, and thus ensure satisfactory business management, is controverted in the Report. The argument used in opposition to such a measure is that the time for this institution is not yet come. Against this view it may be pointed out that in every country in which credit organisation has been successful a central co-ordinating and controlling institution has been recognised, at an early stage of the movement, as necessary to the stability and good management of the local Societies. With more than two hundred Credit Societies now existing in Ireland, many of them sadly in need of supervision, the time for this complement of their organisation has come, if it is ever to come at all. The evidence offered to the Committee amply proves the urgent need for it, and the recommendation of the Report that the Department should undertake the chief functions of such a body is further proof that it is called for. It has already been argued that the agency best fitted to discharge these functions is one representative of the Societies, and wholly co-operative in character. The Irish Agricultural Organisation Society fulfils these requirements, and is rendering the services which it is proposed the Department should undertake. If it has hitherto met inadequately the needs of the Societies, the cause has been the lack of sufficient funds for the purpose. That disability has been removed by the Development Commissioners, and the I.A.O.S. is now in a position to render to the Societies the services of inspection and guidance which are the main benefits a central institution can give them. It is availing itself zealously of its increased resources in the fulfilment of this task, and it is now unnecessary, as it would be invidious, to take the task out of its hands.

T. A. FINLAY.

NOTE BY MR. WALTER KAVANAGH, D.L.

In deference to the wider knowledge of my colleagues on this subject, I sign the Report. But after hearing and considering the evidence put before us, my own opinion is that the present facilities for obtaining credit for agricultural purposes are sufficient, and that, therefore, it is unnecessary, if not harmful, to try and increase them.

It appears to me that the Joint Stock Banks (with certain concessions which I refer to later on) meet all the requirements of the ordinary farmer. Sums from £5 and upwards can be readily obtained on loan, provided that the borrower is a solvent man himself, or can bring one or more good sureties to back his bill. Even smaller sums are lent by some of the banks, and we had evidence that one Bank in Belfast lent sums as low as £1 and even 10s. to farmers and others who could give security; but as a rule we may take it that £5 is the lowest sum that Banks care to lend, owing to the expenses of book-keeping, &c., but that anything over that sum can be readily and easily obtained by those who are in a position to give adequate security.

From the evidence that has been given before us, I have come to the conclusion that the Joint Stock Banks meet the requirements of those farmers who have need to borrow, and who are in a financial position to do so, and I have great doubts whether increased facilities, or in other words "making borrowing easier," would be a wise or prudent innovation. Also, I cannot accept the principle that increased borrowing facilities are an incentive to thrift.

Leaving aside for the moment the expert witnesses, who were, I admit, as a rule enthusiastic about the whole Raiffeisen system, as applicable to any country, and coming to the more essential witnesses, whom we met on our tour through the country, these latter struck me as either undecided in their opinion as to the need and usefulness of Credit Societies, or to have in their minds cheaper loans, *i.e.*, a lower rate of interest, as a result of their establishment in their localities.

The question of the rate of interest on loans has been fully dealt with in the Report, so that I need not argue the point further, except to say, as my own opinion, that those who rely on these Credit Societies to supply money at low rates of interest, and for long term loans, base their conclusions on false premises.

The whole question of Agricultural Credit has changed enormously within the last 10 or 15 years. The number of branches of the Joint Stock Banks has greatly increased—the whole country is now covered with them. Every small town has two or three banks in it, and most of the villages have a branch office, which opens on one or more days in the week, and on market and fair days. So that those who want to do business with the banks can do so now-a-days without travelling very far; and in that way borrowing facilities have been greatly increased within the last few years, and, in my opinion, fully supply the existing need.

It has not been contended in the evidence put before us that the interest charged by the Joint Stock Banks on loans, whether small or great, is excessive. What is, however, complained of, and with some reason, is—

1. The shortness of the loan, *i.e.*, for a period of 3 or 4 months.
2. The expense attached to obtaining the loan, and its renewals.

These two complaints seem to be very real ones. A farmer borrows, say, £5, £10, £20, or whatever it may be, for the purpose of purchasing stock or seeds, or something which in course of time will turn to profit, and enable him to repay the loan, with a fair margin of profit for himself. That is the ideal purpose of a loan, and we may assume that it is the object in the majority of cases. But there is no doubt that 3 or 4 months is too short a time for either stock or seeds to come to profit, and enable the borrower to repay out of the results of the loan. Six months is probably the shortest time that will enable him to sell his stock at a profit, or realize on his harvest. Therefore, he has to renew, which means additional expense, and increases the cost of the loan.

Bankers say that it is against sound financial principles to lend money out for a longer period than 3 or 4 months. It is not for me to gainsay their expert opinion, but what always strikes me with regard to these loans to farmers is that at the time of the loan the Bank manager must know that it will not be repaid in 3 or 4 months, and that there

will be one, if not two, or more, renewals before the loan can in the ordinary course of events have time to fructify and be repaid; so that in practice, if not in theory, the loan is for 6, or even 9 or 12 months, with extra expense on the borrower attached to it, on account of renewals. Bankers, of course, know their own business best, but one thing that has been made very clear by the evidence given before us is this—that if Bank managers were allowed to make these loans for agricultural purposes for longer periods, and with less expense and loss of time to the borrower at the time of negotiating the loan, they would greatly assist and convenience the vast majority of their customers.

The expenses attached to obtaining a loan are no doubt considerable. A would-be borrower at a Bank has to bring in two sureties with him to back his bill. If he comes from any distance it means the loss of nearly the whole day to him and his friends. For that loss he has to compensate them, and in addition he has to pay for their food and perhaps train fare. All that comes to a considerable amount, and in the case of a small loan probably is much more than the interest itself. In the case of renewals the same expense would have to be incurred again, though in some cases the Banks do not require the second attendance of the sureties.

These expenses add very largely to the cost and inconvenience of borrowing, and the repetition of them appears to be irksome and unnecessary. On the other hand Bank managers say that the complaints about the expenses at the time of borrowing and renewals are greatly exaggerated, and that would-be borrowers suit their own convenience about coming to the Bank, and generally choose, and their sureties with them, either a fair or market day, when they would in any case have to be in town. At any rate, if these two objections could be removed, *i.e.*, the shortness of the time of the loan, and the expenses attached to obtaining it, borrowers could have no cause of complaint against the present system of the Joint Stock Banks, and agricultural credit would, in my opinion, need no extension.

I have dealt with the case of borrowers of £5, and upwards, who are themselves in a position to obtain loans, or could produce good sureties. The requirements of this class, as I have said, are to my mind amply met by the Joint Stock Banks.

There remain then two other classes of borrowers, whom it is contended the Joint Stock Banks do not accommodate, *i.e.*

1. Borrowers of sums under £5.
2. Those who cannot give, or get, security to offer to the Banks.

As regards class (1), I admit that the Banks do not, as a rule, care about lending sums under £5, and for these no doubt small Credit Societies would be a help; but the number of these borrowers is small, and insufficient, in my opinion, to justify the setting up of a separate banking system for their benefit alone.

As regards class (2), it does seem desirable to provide some sort of joint security, by the banding together of many of this class, with the addition of some of their well-to-do neighbours, into a guarantee society, thus forming a collective security, which individually is not good enough in itself.

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To carry out this object, Mr. Henry Doran made a valuable suggestion in his evidence before us. His scheme was that in any locality where the needs of the small borrowers required special treatment, a guarantee society should be formed in any parish or group of parishes, composed of the well-to-do farmers and people of influence in the neighbourhood, and that this society, on the joint liability of its members, should become security to a Joint Stock Bank for the poor, needy borrower, after having examined into his circumstances and character, and the purpose for which he required the loan.

This scheme does away with all the difficulties and objections of a banking system carried on by inexperienced persons, whilst it supplies the great need of the small and poor borrower, *i.e.*, security to back his application for a loan at the Bank. For these reasons I think it has much to recommend it. Mr. Doran's general opinion on the subject, however, and with it I entirely agree, is that "Credit Banks on their present basis cannot be seriously considered as a source from which landholders in the western districts may be financed to any useful extent," and further he "would discontinue all such Credit Banks as likely to do more harm than good."

To sum up, whilst I believe that the present Joint Stock Banks with their network of branches all over the country, and the keen competition amongst them, are sufficient

meet the requirements of the great majority of agriculturists, and that, therefore, there is no need or demand for an extension of borrowing facilities, I do think that our Irish Joint Stock Banks could do more to meet the requirements of the small borrower, by lending in lesser sums for longer periods, and reducing the expenses consequent on obtaining a loan, and that such an extension of their business would be as much to their own advantage, as it would be to their customers themselves.

In considering the question of agricultural credit, and the possible need for its extension, we must not lose sight of one of its largest sources, *i.e.*, the shopkeeper. Many hard things have been said about the shopkeeper. He has been confused with, if not likened to, the "Gombeens" man. He has been abused for the length of his credit, and the high rate of his interest, and probably there are cases where these charges have been deserved. On the other hand I quote the evidence of one witness who, when pressed on the subject, gave it as his experience that the farmer who bought on credit at the shops, got the same article, and at the same price, as the purchaser who paid ready money. But in any case there is no doubt that at present both the shopkeeper and his credit system are a necessity to agricultural life, and taking one thing with another, I believe that he has not been a bad friend to the farmer.

Be that as it may, the shopkeeper is to-day a large item in agricultural credit; and in considering the sources from which credit comes, and the needs, if any, for further extension, the shopkeepers must figure largely in the calculation, as part and parcel of the whole credit system, and especially that in which the poorer and needier class is concerned.

Assuming, however, in deference to my colleagues, that further facilities are required to meet the needs of the small borrowers in Ireland, whilst not sharing in the line of thought which has led them to these conclusions, I agree with their suggestions and recommendations for carrying out certain alterations in the present system of Agricultural Credit Societies in Ireland.

WALTER KAVANAGH.

NOTE BY DR. KYLE KNOX.

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I have had the advantage of reading the comments of the Rev. Father Finlay on the Report, with which I entirely concur, and I sign the Report subject to those comments, and to a few observations of my own which I make as concise as possible.

There seem to be only two sources from which farmers can get loans without incurring risk of possible, and even probable, usurious treatment. Those sources are the Raiffeisen Credit Societies and the Joint Stock Banks. If the amounts required are small, the Credit Societies meet the want; and, further, they teach the people to rely on themselves, the necessity of punctual payment of debt, and the sanctity of contract. If the period for which a loan is required is short, say 6 to 9 months, the Joint Stock Banks can assist materially, if they consent to discount selected Bills at such dates, and to draw on their reserves to a moderate extent. The expense connected with such Bills is greatly exaggerated by the assumption that the possible maximum of outlay is to be regarded as a rule. In practice the farmer visits the Bank on the Fair Day or Market Day, when both he and his sureties are there on their usual business affairs.

No man would wish to interfere with the beneficent action of either of these institutions; any disturbance in their work can be mischievous only. But there is a large body of farmers, including those who have in late years become holders in fee, subject to payment of instalments under the various Land Acts, men who require loans for periods which may extend for years, and whom neither the Raiffeisen Society nor the Joint Stock Bank can help.

For drainage purposes these men can get grants from a Government Board, but what they require is to provide stock, and further farm buildings and farm implements beyond Government Grants. The problem is how their difficulties are to be met without interference with the work of existing bodies, and by the action and effort of the people, and without throwing a new load on the Government. The same identical difficulties have arisen, and have been solved, as anyone might expect, in agricultural Germany. They have led throughout that empire to the creation of the Land Mortgage Associations referred to in the Report, of which there are 23 in full working order and activity. I can see no reason why the same principle might not be put in force and adopted in this country, viz., the principle of the co-operation of the landholders and farmers of a county for the purpose of creating a credit security which does not now exist. No doubt modification might be necessary; no doubt difficulties would arise, and the extension of the work be limited; but the undeniable benefits which such Associations bestow, and which are set out by Mr. Cahill (and quoted in this Report), would ultimately amply repay the labour and expense of such an enterprise.

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There is one probable benefit not mentioned in Mr. Cahill's Report which might arise. There are districts in Ireland where farms, large or small, are of no value as security in the eyes of any capitalist, for the plain reason that the security cannot be realized without the illwill and opposition of the "country side." I think it might be expected that, if through the creation of a Land Mortgage Corporation the "country side" itself became the lender, the realization of a security by that Association might be regarded as necessary and right by that same "country side." And that same spirit of co-operation which governs the Raiffeisen Societies might awake to animate the members of the Mortgage Corporation. The farmers might come to lean on themselves, and not expect the guidance and support of a Government Department in perpetuity.

R. KYLE KNOX.

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NOTE.—The following Rules have been drawn up by the Committee in accordance with the provisions of the Industrial and Provident Societies Acts. They are intended merely as draft Rules, embodying, as far as existing legislation permits, the main recommendations of the Committee in regard to the constitution and methods of Limited Liability Credit Societies.

SUGGESTED RULES

FOR

LIMITED LIABILITY THRIFT AND CREDIT SOCIETIES.

ORGANISED UNDER THE AGRICULTURAL CREDIT SECTION OF THE DEPARTMENT OF AGRICULTURE AND TECHNICAL INSTRUCTION FOR IRELAND.

RULES OF THE..... CREDIT SOCIETY, LIMITED.

Registered under the Industrial and Provident Societies Acts, 1893-1913.

(See Note on p. 391.)

RULES.

Interpretation.

1. In these rules, wherever the context so admits :—

(1.) All words denoting the masculine gender shall be deemed to include the feminine, and all words denoting the singular number to include the plural, and *vice versa*.

(2.) "Summoned general meeting" means a general meeting of the Society of which special notice has been given at least a fortnight beforehand to the members, stating the nature of the business to be transacted. An ordinary general meeting may be a "summoned meeting" if such special notice has been given.

(3.) "The Committee" means the Committee of Management of the Society.

(4.) The "defined area" is the [parish or townland of.....]

(5.) "The Act" means the Industrial and Provident Societies Act, 1893, and any Acts amending or in substitution for the same and for the time being in force.

(6.) The term "Registrar" means the Assistant Registrar of Friendly Societies for Ireland.

(7.) "Agricultural Credit Section" means the Agricultural Credit Section of the Department of Agriculture and Technical Instruction for Ireland.

Name, Constitution, and Place of Registered Office.

2. The Society shall be called "The..... Thrift and Credit Society, Limited." Its registered office is at....., in the County of..... The Committee of the Society may change the situation of the registered office. Notice of such change shall be sent within fourteen days thereafter to the Registrar, in the form prescribed by the Treasury Regulations. The fact of registration under the Act constitutes the Society a corporate body, with power to sue and to be sued, through its officers acting on its behalf.

Objects of the Society.

3. The objects of the Society shall be :—

(a) To carry on the business of granting loans and credit to its members, for profitable purposes, by making use of the combined credit of the members.

(b) To borrow money in order to make loans, and for other approved purposes of the Society.

(c) To encourage thrift by the reception of deposits.

(d) To carry on the business of banking subject to these rules.

The Society shall confine its functions solely to the objects set forth in this Rule, and shall not engage in any transaction of purchase or sale whether in agricultural requirements or otherwise.

Acquisition of Membership.

4. Any person, male or female, over 18 years of age and of good character, who is approved by the Committee and who resides within the defined area is eligible for admission to membership. No Society or Company may become a member of the Society.

5. No entrance fees shall be paid by members. A copy of the Rules with explanatory memorandum shall be presented to each person on his becoming a member.

6. The Society shall consist of the persons by whom the application for registration is signed (hereafter termed "the original members"), together with such persons as shall subsequently sign the form of application for membership, and are elected by the Committee, or may acquire a share by allotment or transfer, with the consent of the Committee. Until the first Ordinary General Meeting, the Committee shall consist of the original members.

7. After the registration of the Society there is required for the acquisition of membership (1) an unconditional statement signed by the intending member, intimating his consent to become a member; and (2) a resolution of the Committee accepting such person as member and allotting him a share or shares in the Society. The statement at (1) shall be signed by each member in a book kept for the purpose at the office of the Society, in which also a record shall be kept of each resolution of the Committee (with date) accepting a member. The membership of a candidate takes effect only from the date when these two conditions have been complied with.

8. All applications for membership shall be laid before the next ensuing meeting of the Committee, and one adverse vote in three shall exclude the applicant. Any candidate who has been refused admission shall have the right of appeal to the next General Meeting of members, and shall have the opportunity of stating his case. At this meeting the voting shall be by ballot. If three-fourths of the votes cast are in favour of the admission of the applicant, he shall thereupon be admitted to membership.

9. A person under the age of 21 may, subject to these Rules, enjoy all the rights of a member (save as provided by the Act), but he shall not be a member of the Committee or Treasurer of the Society.

Rights and Liabilities of Members.

10. Every member shall be eligible to obtain a loan from the Society for specified and approved purposes, in accordance with Rules 29-35; and to deposit money at interest with the Society within the limits set forth in Rules 26-28.

11. Every member shall be entitled to be present at the General Meetings of the Society, to take part in the deliberations, to vote for the election of the Committee and officers, and to obtain all information required concerning the solvency and good management of the Society, subject to the proviso mentioned in Rule 58.

12. All moneys payable by a member to the Society shall be a debt due from such member to the

Society, and shall be recoverable as such in the County Court* of the district in which the member resides.

The Society shall have a lien on the share or shares of a member for any debt due to it by him, and may set off towards the payment of such debt any sum credited to the member in respect of his shares.

13. Should the Society be wound up in pursuance of any order or resolution, or should circumstances arise necessitating the calling up a part or the whole of the unpaid portion of the shares under Rule 21, every present and past member shall be liable to contribute towards the payment of the debts and liabilities of the Society and the expenses of winding up, should this take place, and for the adjustment of the rights of contributors amongst themselves, subject to the following qualifications:—

(a) No person who has ceased to be a member for one year or upwards, prior to the commencement of the winding-up proceedings, shall be liable to contribute;

(b) No person shall be liable to contribute in respect of any debt or liability contracted after he has ceased to be a member.

(c) No person who is not a member shall be liable to contribute, unless it appears to the Court that the contributions of existing members are insufficient to satisfy the just claims upon the Society.

(d) No contribution shall be required from any member exceeding the amount, if any, unpaid on the shares in respect of which he is liable as a past or present member.

(e) All contributions shall be levied from members in proportion to the share holding of each member.

14. These Rules bind the Society and the members thereof, and all persons claiming through them respectively, as if each member had subscribed his name and affixed his seal thereto, and as if there were contained in such Rules a covenant on the part of such member, his heirs, executors, administrators, and assigns, to conform thereto, subject to the provisions of the Act.

Cessation of Membership.

15. A member shall cease to be a member if he no longer holds a share.

16. A member shall cease to enjoy the rights of a member in regard to voting or acting as an officer of the Society, if he ceases to reside within the defined area; but, on his written application, the Committee may decide to permit him to retain these rights.

17. A member may be expelled from membership by a vote of two-thirds of the Committee, upon a charge, made in writing, of conduct detrimental to the interests of the Society. The grounds of such exclusion shall be at once communicated to the member, from which date the excluded member shall take no part in the work of the Society. He may, however, appeal within four weeks to a Special General Meeting, against the Committee's decision. If the Committee's decision is not confirmed by three-fourths of the members present and voting at the General Meeting, the member's expulsion shall be cancelled. If the Committee's decision be confirmed, however, such expulsion shall not affect the right of the expelled member to transfer his share or shares to any person approved by the Committee, nor his liability upon his share or shares, if such be not transferred with the Committee's consent; nor shall it affect his liability in respect of any loan made to him or on his guarantee.

18. In the event of the death of a member, the liability of his heirs, executors, and administrators shall extend to loans contracted by him, or upon his guarantee, and remaining unpaid to the Society at his death, together with the interest thereon; and to the liability upon the share or shares which he held at the time of his death.

* If legislation be obtained enabling all debts to be recovered by the Society in the Petty Sessions Court, insert Petty Sessions Court instead of County Court.

Shares.

19. The share capital of the Society shall consist of an unlimited number of shares of £5 each, which shall be transferable only with the Committee's consent, and only to a person elected for membership by the Committee. The total number of shares to be issued shall be decided by a General Meeting of members, which shall also decide as to any increase in the share capital of the Society.

20. Each member must hold at least one share, but no member may at one time hold more than 20 shares. The sum of five shillings shall be paid on each share, 2s. 6d. on allotment, and a further sum of 2s. 6d. within six months. The original members shall, upon the registration of the Society, have allotted to them the number of shares which they have agreed to take, as stated in their application for registration.

21. No call shall be made upon the unpaid portion of the shares, save such as a summoned General Meeting shall decide to be necessary to make the assets of the Society (excluding uncalled capital) sufficient to cover the Society's liabilities. At least a fortnight's notice shall be given before the payment of any call.

If any instalment or call in respect of any share is in arrear and remains unpaid for thirty days next after a notice in writing, signed by the Secretary for the time being of the Society, has been sent by registered post to the last known place of abode of the holder of such share, the Committee may declare such share forfeited, and thereupon such share shall be forfeited, and all sums paid in respect of it shall be carried to Reserve Fund.

22. A dividend may be paid upon the paid-up share capital of the Society, with the consent of a General Meeting, but such dividend shall not exceed 5 per cent.

Each member shall be entitled to a sealed certificate stating the number of his shares in the Society, and the amount paid up in respect of each share.

The shares of the Society shall be numbered consecutively and issued in order of number. The Secretary shall keep a Share Register book, in which shall be entered the name, address, and occupation of each member; the number of shares held by him, with the number of each share and the amount paid up on it; the date on which he became the holder of each share; and the date on which he ceased to hold any particular share.

23. No member shall be entitled to withdraw any share, or to claim repayment from the Society of any portion of the share capital paid by him.

Transfers of shares shall be made in the following form, and shall not be valid until countersigned by the Secretary with the approval of the Committee:—

I of, a member of the Thrift and Credit Society, Limited, do hereby [in consideration of the sum of, paid to me by of] transfer my shares, Nos. in the said Society, to the said, to hold the same subject to the several conditions upon which I held them at the time of the execution hereof, and I, the said do agree to accept said shares, subject to these conditions.

Signature of Transferrer,

Signature of Transferee

Signature of Witness. Counter signature of Secretary.

.....

Nomination by Members.

24. A member may, by writing under his hand delivered at or sent to the registered office of the Society during his lifetime or made in a book kept thereat, nominate any person or persons other than an officer or servant of the Society (unless such officer or servant is the husband, wife, father, mother, child, brother, sister, nephew, or niece of the nominator) to or among whom his property in the Society, whether in shares, loans, or deposits, or otherwise, or so much thereof as is specified in such nomination, if the nomination does not comprise the whole, shall be transferred at his decease. If the amount comprised in the nomination

exceeds one hundred pounds sterling, the nomination shall be valid to the extent of one hundred pounds, but not further. A nomination so made may be revoked or varied by any subsequent nomination or similar document under the hand of the nominator, delivered, sent or made as aforesaid, but shall not be revocable or variable by the will of the nominator or any codicil thereto.

The Society shall keep a book wherein the names of all persons so nominated and all revocations or variations, if any, of such nominations shall be regularly entered, and the property comprised in any such nominations to an amount not exceeding one hundred pounds shall be payable or transferable to the nominees, although the Rules of the Society declare the shares not to be transferable.

When a member dies, or becomes insane or a bankrupt, the Committee shall deal with his shares and other property in the Society as provided in Sections 26 to 31 of the Act of 1893, as amended by Sees. 5 to 7 of the Act of 1913.

The marriage of a member shall operate as a revocation of any nomination made by him before such marriage, provided that in the event of an officer of the Society having transferred any property of a member to a nominee in ignorance of a marriage contracted subsequent to the date of the nomination, the receipt of the nominee shall be a valid discharge to the Society, and the Society shall be under no liability to any other person claiming such property.

Borrowing by the Society.

25. The Committee of a Society may, on behalf of the Society, obtain such loans or advances from any person or persons, Bank, registered Society, or Company, as may be required from time to time for the purpose of making loans to members or of meeting the liabilities of the Society, subject to such provisions for repayment as may be agreed upon, provided that the Committee shall not, unless with the authority of a summoned General Meeting, agree to pay a higher rate of interest than 5 per cent. per annum on any sum borrowed (exclusive of deposits, on which the amount paid shall not exceed $3\frac{1}{2}$ per cent.; see Rule 27).

The Committee may by resolution order the Secretary to affix the seal of the Society to any contract or security for the repayment of money borrowed, and such contract or security shall thereupon be binding on the Society and valid and sufficient for all intents and purposes.

The amount up to which the Committee may pledge the liability of the Society shall be determined at each Annual General Meeting, or at a Special General Meeting called for the purpose.

Deposits.

26. A Society may receive deposits from members and non-members. Unless by special decision of a General Meeting, no single deposit exceeding £50 shall be received; while the total amount deposited by any depositor shall not at any time exceed £100, exclusive of interest. Deposits of £10 and under shall be withdrawable on a week's notice being given. Deposits of over £10 shall be withdrawable only on a month's notice.

27. The interest payable on deposits shall not exceed the rate of $3\frac{1}{2}$ per cent. per annum, calculated at the rate of 8d. in the £ per annum, or $\frac{3}{4}$ d. per £ per month; but the General Meeting shall have power to fix any lower rate according to the amount of funds in hands, and the requirements of borrowers. As far as possible the total amount of deposits received shall not exceed the amount needed for the making of loans to members. The maximum amount of deposits to be accepted by the Society shall be decided annually at the General Meeting.

No interest shall be paid on fractions of a £ or for fractions of a month. The interest payable on deposits shall be calculated to 30th June and 31st December of each year, and, in the case of withdrawal of deposits to the last day of the month preceeding such withdrawal.

28. The Society shall not be bound to receive deposits, and may return to a depositor, on giving one

month's notice, a part or whole of any amount deposited. Each depositor shall be made aware of this condition before his deposit is accepted. In all cases preference shall be given by the Committee to small deposits as compared with those of larger amount.

The rights of a person who shall lend or deposit with the Society any funds shall not be affected by the fact of the Society's not having complied with any of the foregoing provisions.

Loans to Members.

29. A loan may be made only to a member of the Society and only for some profitable purpose approved by the Committee.

No loan shall be made to a member who has ceased to reside in the defined area, save with the special consent in each case of the General Meeting.

A member before obtaining a loan must furnish two sureties (either members or non-members) approved by the Committee, or provide such other security as the Committee may consider sufficient. No member who is in possession of any part of the funds of the Society, as borrower or otherwise, shall be accepted as surety for a member requiring a loan, unless the Committee are of opinion that it is safe to do so. All loans to members must be applied to such purposes as may be approved of by the Committee. No loan shall be made for a longer period than one year, unless it be made repayable by instalments of equal amount at regular intervals, in which case the maximum period for repayment may be three years. No loan shall be granted to a member which shall make his total indebtedness to the Society at any time to exceed £50, or to amount to a sum exceeding £5 for each share held by him.

30. The normal rate of interest on loans to members shall be fixed at $6\frac{1}{4}$ per cent. per annum, calculated at the rate of $1\frac{1}{4}$ d. per £, or fraction of a £, for every calendar month, or fraction of a month, during which the money is on loan. The interest on the loan shall be payable on the same date as the loan itself, or its instalments. (See also Rule 36.)

The Society shall not open a current account with any borrower.

31. A member who wishes to obtain a loan shall fill up and sign a form, stating the amount desired, the purpose and period for which it is required, whether he wishes to repay by instalments, the names and addresses of the persons who have consented to act as sureties, or particulars of any other security which he may propose to offer.

Such formal application must be received by the Secretary at least two days previous to a meeting of the Committee, and if thus received shall be considered at that meeting. If the Committee are satisfied with the trustworthiness of the applicant and his sureties, and as to the probability of the loan proving profitable to the borrower, they may sanction the loan, provided that funds are available, and may fix the date and instalments, if any, of repayment. The Committee may refuse to grant a loan without stating any reason for their action. Early notice of their decision shall be communicated to the applicant. If they think it desirable to postpone the consideration of an application for a loan, the applicant shall be so informed by the Secretary.

Should the loan be repayable by instalments the borrower shall be given a card upon which shall be stated the amount and terms of the loan. On this card the instalments as repaid shall be recorded and initialled by the officer of the Society to whom the money is paid.

If the available funds are not sufficient to provide for all the loans approved of, preference shall be given to applicants who have not recently received loans over those who have, and to applicants for small loans over applicants for larger amounts. No loan shall be paid to an applicant until he and his sureties have signed a document embodying the terms on which it is granted, so far as the Committee may require. Should this document not be completed and signed within a week from the date upon which notice of sanctioning the loan was sent to the borrower, the Committee shall not be bound to complete the loan.

32. The Committee may require, as a condition of granting a loan for the purchase of live stock, that the applicant shall insure such stock, and that he shall keep up the insurance until the loan is repaid.

33. No person save a member of the Committee, or the Secretary, or Treasurer, shall be present at the meeting of the Committee when an application for a loan is under consideration. If a member of the Committee himself applies for a loan, he shall withdraw while his application is being discussed or voted on. If it is found necessary to take a vote in regard to the making of a loan, such vote shall be by ballot. The proceedings at Committee meetings in respect to loans shall be treated as strictly confidential, and any member of the Committee or officer of the Society who infringes this Rule shall be liable to expulsion or dismissal.

34. Should any loan or instalment not be repaid on the date on which it is due, a notice shall be sent by the Secretary to the borrower. If the amount is not paid within fourteen days, together with a fine of 2d. per £ of the sum owing, and no satisfactory explanation for non-payment is furnished, the borrower and his sureties may be required to pay within fourteen days the whole of the amount owing, including fine and additional interest, or, if other security has been given, steps shall be taken to realise the same. If before repayment of a loan is due, the borrower notifies the Secretary of the Society that, owing to sickness, or other cause, he desires an extension of the date fixed for repayment, the Committee may, if it considers the reason given sufficient, remit the fine and, with the consent of the sureties, extend the date fixed for repayment, on such conditions as they may think fit.

The decision of the Committee to extend the time for repayment of a loan must be unanimous. On a loan being repaid, no further loan shall be granted to the same borrower, until a period of at least a month has elapsed from the date of repayment of first loan. No further sum shall at any time be advanced to a borrower, unless all sums due, with interest, by such borrower to the Society have been repaid in full.

If the Committee are satisfied that a borrower has not within a reasonable time utilised a loan for the purpose for which it was granted, or has in any way misapplied the loan, the Committee shall have power to recall the loan forthwith (both principal and interest), or otherwise to punish the offender in accordance with the Rules.

35. The Committee shall open a current account with a Joint Stock Bank approved by a General Meeting. All loans shall be made by means of cheques upon this Bank. In very exceptional cases where, owing to the distance of the nearest Bank, this provision would prove difficult of adoption, it may be waived with the consent of the Agricultural Credit Section.

All payments by cheque shall be signed by two members of the Committee and counter-signed by the Secretary. All cash received by the Society in repayment of loans, or in other ways, shall be lodged with the least possible delay by the Secretary or Treasurer in the said current account, until the method of investment of all or a part of such funds has been decided upon.

Reserve Fund.

36. No portion of the funds of the Society shall be divided by way of profit, bonus, dividend, or otherwise, amongst the members. The funds and investments representing the Reserve Fund shall be kept in a separate account, and shall not be applied to the payment of management expenses, but may be lent to members or applied to any other approved purpose, with the authority of a General Meeting. If any loss be incurred by the Society otherwise than in respect of the management expenses, the summoned General Meeting may vote such sum as it considers desirable from the Reserve Fund to meet the loss. Any surplus accruing to the Society after payment of management expenses shall be carried to the Reserve Fund.

Should the Reserve Fund reach a sum of £300, or one-fourth of the deposits of the Society, whichever be the larger sum, a General Meeting shall decide

whether further profits shall be added to the Reserve Fund, or whether a diminution shall be made in the rate of interest charged to borrowers.

37. In the event of a Society being dissolved or wound up, the surplus assets, including the Reserve Fund, after payment of the liabilities of the Society (including the payment to members of the paid-up portion of the share capital) and the cost of dissolution or winding-up, shall not be divided among the members, but shall be devoted to such useful purposes in the district as may be determined by the General Meeting.

Investment of Funds.

38. Any funds of the Society which are not placed on current account in the approved Joint Stock Bank may be deposited by the Committee in the Post Office Savings Bank, in any Savings Bank certified under the Trustee Savings Bank Act of 1863, in the Bank of Ireland, or may be invested in any security in which Trustees are for the time being authorised by law to invest; and shall not be otherwise invested.

Officers.

39. The Society shall have the following officers:—a Chairman, a Treasurer, a Secretary, and a Committee. The Treasurer may also be Secretary of the Society, with the sanction of the General Meeting. All the officers, save the Chairman, shall be elected by a majority of the members of the Society present and voting at the Annual General Meeting, or at a summoned General Meeting; and any officer may be removed by a resolution of such Meeting. Should any officer die, resign, be removed, or become incapable of acting, the Committee shall have power to appoint a qualified person to fill such vacancy until the next Annual General Meeting. The Treasurer and Secretary shall hold office during the pleasure of the Society; all other officers shall continue in office until the next Annual General Meeting. At every Annual Meeting such officers shall be elected for the ensuing year, or, in the event of failure of such election, those last appointed shall continue in office. Retiring officers may be re-elected.

Method of Election of Officers.

40. Save where the General Meeting otherwise decides the following shall be the method of election of officers.

If the nominations exceed the number of vacancies, the names of all persons nominated shall be written down on slips of paper and one of these slips shall be given to each member present, who shall place a cross against the name or names of the person or persons for whom he votes. A member must not vote for more persons than the number of vacancies, nor give more than one vote to any candidate. The voting slips shall be handed to the Secretary or Chairman and the votes counted, those candidates being declared elected (up to the number of vacancies) who have received the largest number of votes. At the close of the Meeting the voting papers shall be destroyed by the Chairman.

Voting.

41. Every member over the age of 21 shall have one vote and no more, irrespective of the number of shares held by him; nor shall any member vote by proxy. The Chairman of the Society shall have an additional casting vote in the event of the votes being equal. No member who is in arrear with any payment due by him to the Society shall be entitled to vote at any Meeting so long as such arrear remains unpaid.

General Meeting.

42. The first Meeting of the members after registration of the Society shall have the same powers as those given in the Rules to the Annual General Meeting.

The Annual General Meeting shall be summoned during the months of February or March in each year, at least a week's notice being given.

Any question submitted to the decision of the General Meeting shall be decided by a majority of votes, save as otherwise provided in these Rules. All General Meetings of the Society shall be held at

the registered office of the Society, unless the Committee decide—either in general or in a particular case—that the Meetings should be held at some other place. In no case, however, shall any Meeting of the Society or Committee be held on or in connection with premises licensed for the sale of intoxicants.

A summoned General Meeting shall be held whenever the Chairman and Secretary, or a majority of the Committee, think expedient, or whenever not less than one-fifth of the total number of members shall so request the Secretary, in writing. At a Meeting summoned on the requisition of members no other business than that specified in the notice shall be taken into consideration.

Ten members shall constitute a quorum of an Annual or summoned General Meeting. At all General Meetings the Chairman shall, if present, preside; if he be not present, a member of the Committee, chosen by the Meeting, shall act as Chairman.

43. The functions of the Annual General Meeting shall be :—

(1) To receive from the Committee a report and full statement of accounts of the preceding year, together with the audited balance sheet; to consider same, and, if satisfactory, to adopt them;

(2) To decide any appeal from a decision of the Committee which may be referred to it, provided at least seven days' notice of any such matter has been furnished to the Secretary;

(3) To elect the Committee and other officers, as required by the Rules;

(4) To transact any other general business of the Society.

44. A special General Meeting of members shall be called at any time by the Committee, upon receiving intimation from the Agricultural Credit Section that matters had arisen requiring the consideration of such Meeting. An Inspector, Organiser, or other officer of the Credit Section shall, on request being made to that effect by the Section, be permitted to be present at such General Meeting of the Society.

Committee.

45. The Committee of Management shall, subject to these Rules and to any instructions it may receive from a General Meeting, have full power to conduct the business of the Society, and shall in all things act for and in the name of the Society. All acts and orders under the powers delegated to it shall have the like force and effect as the acts and orders of the Society at a General Meeting.

The Committee shall be elected at the Annual General Meeting of the Society. No person in receipt of any remuneration from the Society shall be a member of the Committee.

The Committee shall consist of 7 persons in all, including the Chairman, unless a summoned General Meeting fixes some other number, which shall not be less than 5 or more than 9.

No member of the Committee shall vote on any question which affects his own conduct or interest (including any application for a loan), nor shall he be present when the vote on any such question is taken.

The Committee shall elect its own Chairman, who shall, when present, preside at the General Meeting of the Society.

46. The Committee shall meet for the transaction of business at least once a month on regular dates, which shall be annually arranged.

Additional meetings of the Committee shall also be held as often as the business of the Society may require, the Chairman and Secretary being empowered to summon such meeting at their discretion. Any three members of the Committee may also require the Secretary to call a special meeting thereof, by giving him seven days' notice in writing. At such special meeting no business shall be taken into consideration other than that specified in the notice. Three members of the Committee shall constitute a quorum. The Chairman, or, if he be not present, a member chosen by the Committee, shall preside. Every ques-

tion shall be decided by a majority of votes, save as otherwise provided, and in the event of votes being equal, the Chairman shall have an additional casting vote.

A special meeting of the Committee shall at any time be summoned on written request to that effect being received from the Agricultural Credit Section, and an inspector, organiser, or other officer of the Credit Section shall be permitted to be present at such special meeting.

47. Should a member, during any year ending 31st December, be absent from two-thirds of the total number of Committee meetings held during the year, he shall be considered ineligible for re-election to the Committee for the following period of twelve months, unless the General Meeting is satisfied as to the reasons for his non-attendance.

Should a member resign his position as a member of the Committee, the Committee shall have power to co-opt to the vacancy another member of the Society for the period intervening between such resignation and the next General Meeting.

48. The Committee shall draw up a concise Prospectus of the Society, giving the names of the officers and Committee; the registered office; the hours such office is open for the transaction of business; the times fixed for Committee meetings and Annual General Meetings; the terms and conditions of membership; the interest charged on loans, including the fines for overdue payments; and the terms offered to depositors.

49. The Committee shall give special attention to the obtaining of local deposits from members and non-members of the Society. It shall provide the Secretary with a sufficient number of copies of the Rules and Prospectus. Such Rules and Prospectus shall be given or sent to any person on demand, on payment of 3d. per copy, but the Committee shall have discretion to distribute gratis amongst possible members and depositors a limited number of copies of the Rules and Prospectus.

The Committee shall also provide the Secretary with a sufficient number of copies of the last Annual Return or Balance Sheet, duly audited, containing full particulars as to the receipts and expenditure, the funds and effects of the Society, for gratuitous supply to every member and depositor in the Society, and all persons interested in the Society's funds. It shall be the duty of the Secretary to supply one copy gratis, on application from such persons. A copy of the last Annual Balance Sheet of a Society, together with a copy of the Auditor's Report, shall always be hung up in a conspicuous place at the Society's office.

50. The procedure at each Ordinary Meeting of the Committee shall be as follows:—The Secretary shall first read the Minutes of the preceding Meeting. A statement of accounts shall be presented by the Secretary or Treasurer, showing the loans outstanding, the deposits in hand, and the moneys received or paid since the last Meeting. This statement shall be checked and signed by two members of the Committee.

The Secretary shall report as to the instalments of loans due but remaining unpaid, and the action to be taken in each case shall be determined by the Committee. He shall then read the list of applications for loans, which may not have been previously granted, owing to lack of funds. The Committee shall then decide as to which of these shall be granted, should additional funds be available. Any further applications for loans will next be considered, and a decision arrived at in each case. Other business, such as the admission of new members, and any matters submitted for the consideration of the Committee, will then be discussed.

51. It shall be the duty of the Committee to see that arrangements are made by the Secretary to have all the accounts, documents, bonds, and papers of the Society and any cash temporarily in hands, kept confidentially under lock and key, in a press set apart for the purpose, and to ensure that the key of this press is retained only by the Secretary or Treasurer. The Committee may, in their discretion, empower one of their number in addition to be given access to the Society's press.

The Committee shall arrange that all the books and documents of the Society shall be readily available, and produced at any time to the auditor appointed for

the Society, or to an Inspector or officer of the Agricultural Credit Section, or any officer representing the Registrar of Friendly Societies.

Treasurer.

52. The Treasurer shall be appointed by the Annual General Meeting. He shall be an ex-officio member of the Committee, save in those cases where he also holds the position of Secretary. He shall take charge of the funds of the Society which are not invested, and shall, with the least possible delay, place such moneys in the Joint Stock Bank or invest them as instructed by the Committee; and pay all demands, when directed to do so by the Committee or by a General Meeting of the Society. He shall be present at each audit of the books of the Society, at which he shall render a full and clear account of the financial position of the Society, and shall also do so when required by resolution of the Committee or General Meeting.

He shall give up all books, deeds, documents, moneys and property of the Society in his custody to such person as the Committee or General Meeting may appoint, when required to do so by resolution of the Committee or General Meeting.

Unless exempted by a special resolution of a General Meeting, he shall give security in the amount of £50, in the manner provided by Section 47 of the Act. He shall receive no remuneration, but shall be refunded incidental expenses incurred by him for postage, etc., on furnishing full particulars to the Committee.

In the temporary absence of the Treasurer, the Committee shall appoint two of their number to perform his duties. In the event of his resignation, a Special General Meeting shall be called to elect another member to fill the position.

The Secretary of the Society may, if the General Meeting so decide, also hold the position of Treasurer.

Secretary.

53. The Secretary shall be appointed by the Committee, subject to the approval of the next ensuing General Meeting. Should his appointment be then approved, he shall hold his post subject to one month's notice, either given by himself or by the Committee. He shall furnish security for the proper fulfilment of his duties, to an amount to be decided by the General Meeting. Such security shall not be less than £20 nor more than £100 in amount.

54. The Secretary shall not be a member of the Committee, nor have any vote in its proceedings, but he shall have a deliberative voice at all Meetings of the Committee and Society, and shall be a member of the Society. He shall not receive any fixed salary, but shall be given annually by the Committee, should the funds of the Society so permit, a small honorarium in recognition of his services. Such honorarium shall in no case exceed one-fifth of the amount of the security furnished by him. The Committee shall be responsible for making proper arrangements for the custody of the security furnished by the Secretary (and by the Treasurer, where such has been required from this officer).

The Committee shall have full discretion to suspend or dismiss the Secretary from performing the duties of his office for any irregularity in the performance of these duties, and to provide for another person fulfilling same until the decision of a specially summoned General Meeting has been ascertained. Such special General Meeting must, at the Secretary's request, be convened at the earliest convenient date.

55. The duties of the Secretary shall be:—

To summon and attend all Meetings of the Society and of the Committee, and to be present regularly at the offices of the Society at such dates and hours as shall be decided by the Committee.

To record correctly the names of the officers, members of the Committee, and other members present, to take a note of the Minutes of proceedings and to transcribe same into a book, such record being authenticated by the signature of the Chairman as the proceedings of the Meeting.

To keep correctly written up to date the Roll Book

of the Society, containing the signed declarations of adhesion by each member, and the certified record of the Resolutions of the Society accepting each member; also the record of shares held by each member.

To receive proposals for election to membership of the Society, applications for loans, requests for permission to deposit money with the Society, and notices of withdrawal of deposits, which should be submitted by him to the next Meeting of the Committee.

To hand over forthwith to the Treasurer at the close of every Meeting, or in case of receipts at other times, all moneys received by him.

To conduct correspondence on behalf of the Society, and prepare all necessary forms and returns.

To pay over all moneys temporarily in his custody and to give up all books, documents and property belonging to the Society, when ordered to do so by a resolution of the Committee or General Meeting.

To keep in proper order and under lock and key, in the press set apart for the purpose, all accounts, documents, bonds, and papers of the Society, so that no unauthorised person may have access to them.

To prepare receipts and other documents in the form arranged, for the signature of borrowers, before the loans sanctioned are paid over.

To pay to members or others the amounts authorised by the Committee.

To supply forms, books of Rules, Prospectuses, Balance Sheets, or other information which may be applied for, on the conditions set forth in the Rules.

To prepare all Returns, Balance Sheets, and other documents required by Act of Parliament, Treasury Regulations, or the Agricultural Credit Section, and to duly forward same to the Registrar, or to the Credit Section, as the case may be.

To have readily available at any time, for examination by the auditor or by an inspector or other officer representing the Agricultural Credit Section or the Registrar, all the accounts, documents, bonds and papers of the Society. The said auditor or inspector shall be furnished with every facility for obtaining the information asked for, and for ascertaining the amount of cash in the hands of the Secretary or Treasurer.

Custody and Use of the Seal.

56. The Society shall have a seal which shall be kept in the custody of the Secretary or such other officer as the Committee may direct. It shall not be affixed to any document save under special authority of a resolution of the Committee, and shall be attested by the signature of two members of the Committee, and countersigned by the Secretary.

A reproduction of the seal will be found on p. — of these Rules.

Accounts and Book-keeping.

57. Provision shall be made in the books of a Society:—

(a) For keeping the Minutes of all proceedings of the Committee and General Meeting;

(b) For registering in a special Roll Book the names and addresses of all members, with the date of admission of each member and his signature, indicating his definite acceptance of membership, together with an authenticated copy of resolution of General Meeting agreeing to his being included in the membership of the Society; also the amount of shares held by him, with the index number of each such share;

(c) For recording particulars as to applications for loans, with dates on which repayments were made;

(d) For keeping a cash account in which shall be entered all the cash received or paid for any purpose;

(e) For keeping accounts as required by the auditors, in which shall be posted, from the cash book, all amounts entered therein, showing separately the balance of each member or depositor with the Society, and the expenditure or receipts on account of expenses of management, interest, or discount, etc.

All the books of the Society shall be kept in the form prescribed by the Agricultural Credit Section, and supplied by such Section, at such charges as may seem desirable.

Inspection of Books.

58. Any member or person having an interest in the funds of the Society shall be allowed, as provided in Section 17 of the Act, to inspect his own account and the books containing the names of the members, at all reasonable hours, at the registered office of the Society, or at any place where the same are kept, and it shall be the duty of the Secretary to produce such books and accounts for inspection if called upon.

Any person, Society, or institution (such as a Government Department, a Joint Stock Bank, etc.), which shall have advanced money to the Society, shall be deemed a person having an interest in its funds, and shall accordingly have the aforementioned right of inspection.

No person, unless he be an officer of the Society, or be specially authorised by a resolution thereof, shall have the right to inspect the loan or deposit account of any other member, without the written consent of such member.

Any inspector, organiser, or other officer authorised by the Agricultural Credit Section (whether the Society holds funds from the Department of Agriculture or not) or an officer representing the Registrar shall have the right, at any reasonable hour, to inspect the books, accounts, bonds, etc., of the Society; and to ascertain the cash in hands at the time of such visit.

Audit.

59. The Committee shall once in every year, at the Society's office, submit the accounts of the Society, together with a general statement of the same and all necessary vouchers, up to the date of the Society's last published Balance Sheet (provided that date be not more than four months before or one month after the 31st December then last, or otherwise to the 31st day of December, inclusive), for audit to a public auditor selected by the Society from a list furnished by the Agricultural Credit Section, and shall lay before the Annual General Meeting a Balance Sheet for the preceding year, showing the receipts and expenditure, funds and effects of the Society, together with a statement of its affairs, including the amount of the Reserve Fund, the arrears due on loans, and all profits and losses.

The auditor shall have access to all the books, accounts, and documents of the Society, and shall examine the Balance Sheet, showing the receipts and expenditure of the funds and effects of the Society, and shall verify the same with the accounts and vouchers relating thereto, and shall either sign the same as found by him to be correct, duly vouched and in accordance with the law, or shall report to the Society in what respects he found them incorrect, unvouched, or not in accordance with the law.

60. The annual audit shall take place only at the Office of the Society, and shall in no case be conducted by the transmission of books and accounts through the post. The Secretary, Treasurer, and as many as possible of the Committee of Management, shall be present at the audit, and shall furnish every possible facility to the auditor, who shall be enabled to ascertain for himself the amount of cash in the hands of the Secretary or Treasurer.

The auditor shall not hold any other office in connection with the Society. He shall receive remuneration in accordance with the arrangement made upon his appointment by the Society. The cost of such remuneration shall, whenever possible, be defrayed wholly or in part by the Society.

Annual Returns.

61. Every year, not later than the 31st March, the Secretary of the Society shall send to the Registrar an Annual Return, in the form and manner prescribed by him, of the receipts and expenditure, funds and effects of the Society, and of the number of members of the same, up to the date provided in Rule 59, as

audited and laid before a General Meeting, together with a copy of any report or reports of the auditor, and a copy of each balance sheet made during the period included in the return. Duplicate copies shall be furnished at the same time to the Agricultural Credit Section.

Such Return shall state that the audit has been conducted by a public auditor or auditors appointed under the Act of 1893, and the manner in which and the authority under which such appointment was made.

The Committee shall provide the Secretary with a sufficient number of copies of the last Annual Return to enable him to supply gratuitously to every member or person interested in the funds of the Society, on his application, a copy of such last Annual Return, and the Secretary shall supply such copies on application accordingly.

62. A copy of the list of the names and addresses of members with the share capital held by each, shall at least once in every three years be sent with the Annual Return to the Registrar, a duplicate copy of the Return and the list of members being at the same time forwarded to the Agricultural Credit Section.

The Society shall keep a copy of the last Balance Sheet for the time being, together with a copy of the report of the auditor, always hung up in a conspicuous place at the registered office of the Society.

The Society shall, on the first Mondays in February and August in each year make out and keep conspicuously hung up in its registered office, a statement in the form required by Section 19 of the Act.

Settlement of Disputes

63. If any dispute shall arise between a member of the Society or any person aggrieved who has for not more than six months ceased to be a member of the Society, or any person claiming through such member or person aggrieved, or claiming under the Rules, and the Society or an officer thereof, it shall be decided by a majority of votes at a General Meeting, unless the Meeting agrees to refer the matter to arbitration by an arbitrator agreed to by the Society and the aggrieved person, or, in default of agreement, appointed by the Registrar or by the Agricultural Credit Section.

Applications to the Registrar.

64. It shall be the right of one-tenth of the total number of members, by an application in writing to the Registrar:—

(a) To apply for the appointment of one or more inspectors to examine into the affairs of the Society, and to report thereon;

(b) To apply for the calling of a special meeting of the Society. Any such application shall be made in the prescribed form and shall be supported by such evidence as the Registrar may require.

Amendment of Rules.

65. No new Rule shall be made, nor shall any Rules herein contained or hereafter to be made be amended or rescinded, save with the consent of two-thirds of the members present and voting at a General Meeting specially summoned for the purpose with at least fourteen days' notice. A statement of the suggested amendments must be given in the notice convening such meeting; but a meeting so summoned may alter the proposed amendments without further notice.

Every new Rule and amendment of any Rule shall bind the Society, and all members of the Society and all persons claiming through them respectively.

No new Rule or amendment of any Rule is valid until registered.

Dissolution of Society.

66. The Society may at any time be dissolved, by the consent of three-fourths of the members, testified by their signatures to a statement of dissolution in the form provided by the Treasury Regulations; or by winding up as provided by the Act.

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NOTE.—The following Rules have been drawn up by the Committee in accordance with the provisions of the Friendly Societies Acts. They are intended merely as draft Rules, embodying, as far as existing legislation permits, the main recommendations of the Committee in regard to the constitution and methods of Unlimited Liability Credit Societies.

SUGGESTED RULES

FOR

UNLIMITED LIABILITY THRIFT AND CREDIT SOCIETIES.

ORGANISED UNDER THE AGRICULTURAL CREDIT SECTION OF THE DEPARTMENT OF AGRICULTURE AND TECHNICAL INSTRUCTION FOR IRELAND.

RULES OF THE..... CREDIT SOCIETY.

Registered under the Friendly Societies Act, 1896 (59 and 60 Vic., Ch. 25).

(See Note on p. 399.)

RULES.

INTERPRETATION.

1. In these rules, wherever the context so admits:—

(1) All words denoting the masculine gender shall be deemed to include the feminine, and all words denoting the singular number to include the plural, and *vice versa*.

(2) "Summoned general meeting" means a general meeting of the Society of which special notice has been given at least a fortnight beforehand to the members, stating the nature of the business to be transacted. An ordinary general meeting may be a "summoned meeting" if such special notice has been given.

(3) "The Committee" means the Committee of Management of the Society.

(4) The "defined area" is the (parish or townland of.....).

(5) "The Act" means the Friendly Societies Act, 1896, and any Acts amending or in substitution for the same and for the time being in force.

(6) The term "Registrar" means the Assistant Registrar of Friendly Societies for Ireland.

(7) "Agricultural Credit Section" means the Agricultural Credit Section of the Department of Agriculture and Technical Instruction for Ireland.

Name, Constitution, and Place of Registered Office.

2. The Society shall be called "The..... Thrift and Credit Society." Its registered office is at in the County of The Committee of the Society may change the situation of the registered office. Notice of such change shall be sent within fourteen days thereafter to the Registrar, in the form prescribed by the Treasury Regulations.

Objects of the Society.

3. The objects of the Society shall be:—

(a) To carry on the business of granting loans and credit to its members for profitable purposes, by making use of the combined credit of the members.

(b) To borrow money in order to make loans, and for other approved purposes of the Society.

(c) To encourage thrift by the reception of deposits.

(d) To carry on the business of banking subject to these Rules.

The Society shall confine its functions solely to the objects set forth in this Rule, and shall not engage in any transaction of purchase or sale, whether in agricultural requirements or otherwise.

Acquisition of Membership.

4. Any person, male or female, over 18 years of age and of good character who is approved by the Committee and who resides within the defined area, is eligible for admission to membership, provided that the liability is not already pledged by membership in another Society or Association with unlimited liability. No Society or Company may become a member of the Society.

5. An entrance fee, to be fixed by the Committee, may be required from each member. Such entrance fee shall not exceed 5s., and, if fixed at any larger sum than 1s., shall be paid, half on notification of approval of application for membership by the Committee, and half within the following six months. Entrance fees shall not in any circumstances be repaid to members.

A copy of the rules with explanatory memorandum shall be presented to each person on his becoming a member.

6. The Society shall consist of the persons by whom the application for registration is signed (hereafter termed the "original members"), together with such persons as shall subsequently sign the form of application for membership, and are elected by the Committee. Until the first ordinary general meeting the Committee shall consist of the original members.

7. After the registration of the Society there is required for the acquisition of membership (1) an unconditional statement signed by the intending member, intimating his consent to become a member; and (2) a resolution of the Committee accepting such person as member. The statement at (1) shall be signed by each member in a book kept for the purpose at the office of the Society, in which also a record shall be kept of each resolution of the Committee (with date) accepting a member. The membership of a candidate takes effect only from the date when these two conditions have been complied with.

All applications for membership shall be laid before the next ensuing meeting of the Committee, and one adverse vote in three shall exclude the applicant. Any candidate who has been refused admission shall have the right of appeal to the next General Meeting of members, and shall have the opportunity of stating his case. At this meeting the voting shall be by ballot. If three-fourths of the votes cast are in favour of the admission of the applicant, he shall thereupon be admitted to membership.

9. A person under the age of 21 may, subject to these Rules, enjoy all the rights of a member (save as provided by the Act), but he shall not be a member of the Committee or Treasurer of the Society.

Rights and Liabilities of Members.

10. Every member shall be eligible to obtain a loan from the Society for specified and approved purposes, in accordance with Rules 24-30; and to deposit money at interest with the Society within the limits set forth in Rules 21-23.

11. Every member shall be entitled to be present at the General Meetings of the Society, to take part in the deliberations, to vote for the election of the Committee and officers, and to obtain all information required concerning the solvency and good management of the Society, subject to the proviso mentioned in Rule 58.

12. All moneys payable by a member to the Society shall be a debt due from such member to the Society, and shall be recoverable as such in the County Court* of the district in which the member resides.

* If legislation be obtained enabling all debts to be recovered by the Society in the Petty Sessions Court, insert Petty Sessions Court instead of County Court.

13. Every member of the Society shall be, equally with every other member, jointly and severally liable for all debts incurred by the Society, and for any loan which a member or his sureties fail to pay; but each member of the Society shall be liable only for the debts incurred and loans advanced before and during his membership. Such liability is not affected by the member's withdrawal, removal, expulsion, etc.

14. These Rules bind the Society and the members thereof, and all persons claiming through them respectively, as if each member had subscribed his name and affixed his seal thereto, and as if there were contained in such Rules a covenant on the part of such member, his heirs, executors, administrators, and assigns, to conform thereto, subject to the provisions of the Act.

Cessation of Membership.

15. A member shall have the right to withdraw from the Society by giving written notice to the Secretary. Such notice must be presented at least one month before the date of the proposed withdrawal. The termination of membership, whether by withdrawal, removal, expulsion, or otherwise, shall not affect the liability of the member in respect of any loan made to him or on his guarantee, nor in respect of any obligations incurred by the Society before or during the period of his membership.

16. A member shall also cease to be a member if he ceases to reside within the defined area, provided that he has satisfied all claims in respect of money or sureties which the Society may have against him; but, on his written application, the Committee may decide to permit him to retain his membership.

17. A member may be expelled from membership by a vote of two-thirds of the Committee upon a charge, made in writing, of conduct detrimental to the interests of the Society. The grounds of such exclusion shall be at once communicated to the member, from which date the excluded member may take no part in the work of the Society. He may, however, appeal within four weeks, to a special General Meeting, against the Committee's decision. If the Committee's decision is not confirmed by three-fourths of the members present and voting at the General Meeting, the member's expulsion shall be cancelled. If the Committee's decision be confirmed, however, such expulsion shall not affect his liability in respect of any loan made to him or on his guarantee, nor his liability under Rule 10 for obligations incurred by the Society before and during his membership.

18. In the event of the death of a member, the liability of his heirs, executors, and administrators shall extend only to loans contracted by him, or upon his guarantee, and remaining unpaid to the Society at his death, together with the interest thereon.

Nomination by Members.

19. A member may, by writing under his hand, delivered at or sent to the registered office of the Society during his lifetime, or made in a book kept thereat, nominate any person other than an officer or servant of the Society (unless such officer or servant is the husband, wife, father, mother, child, brother, sister, nephew, or niece of the nominator) to whom any sum of money payable by the Society on the death of that member, not exceeding one hundred pounds, shall be paid at his decease. A nomination so made may be revoked or varied by any similar document under the hand of the nominator, delivered, sent, or made as aforesaid. The marriage of a member of the Society shall operate as a revocation of any nomination theretofore made by that member.

Borrowing by the Society.

20. The Committee of a Society may, on behalf of the Society, obtain such loans or advances from any person or persons, Bank, registered Society, or Company, as may be required from time to time for the purpose of making loans to members or of meeting the liabilities of the Society, subject to such provisions for repayment as may be agreed upon, provided that the Committee shall not, unless with the authority of a summoned General Meeting, agree to pay a higher rate of interest than 5 per cent. per annum on any sum borrowed (exclusive of deposits, on which the amount paid shall not exceed $3\frac{1}{2}$ per cent.; see Rule 22.)

The amount up to which the Committee may pledge the liability of the Society shall be determined at each Annual General Meeting, or at a Special General Meeting called for the purpose.

Deposits.

21. A Society may receive deposits from members and non-members. Unless by special decision of a General Meeting, no single deposit exceeding £50 shall be received; while the total amount deposited by any depositor shall not at any time exceed £100, exclusive of interest. Deposits of £10 and under shall be withdrawable on a week's notice being given. Deposits of over £10 shall be withdrawable only on a month's notice.

22. The interest payable on deposits shall not exceed the rate of $3\frac{1}{2}$ per cent. per annum, calculated at the rate of 8d. in the £ per annum, or $\frac{2}{3}$ d. per £ per month; but the General Meeting shall have power to fix any lower rate according to the amount of funds in hands, and the requirements of borrowers. As far as possible the total amount of deposits received shall not exceed two-thirds of the amount out on loan to members. The maximum amount of deposits to be accepted by the Society shall be decided annually at the General Meeting.

No interest shall be paid on fractions of a £ or for fractions of a month. The interest payable on deposits shall be calculated to 30th June and 31st December of each year, and, in the case of withdrawal of deposits, to the last day of the month preceding such withdrawal.

23. The Society shall not be bound to receive deposits, and may return to a depositor, on giving one month's notice, a part or whole of any amount deposited. Each depositor shall be made aware of this condition before his deposit is accepted. In all cases preference shall be given by the Committee to small deposits as compared with those of larger amount.

The rights of a person who shall lend or deposit with the Society any funds shall not be affected by the fact of the Society's not having complied with any of the foregoing provisions.

Loans to Members.

24. A loan may be made only to a member of the Society and only for some profitable purpose approved by the Committee.

No loan shall be made to a member who has ceased to reside in the defined area, save with the special consent in each case of the General Meeting.

A member before obtaining a loan must furnish two sureties (either members or non-members) approved by the Committee, or provide such other security as the Committee may consider sufficient. No member who is in possession of any part of the funds of the Society, as borrower or otherwise, shall be accepted as surety for a member requiring a loan, unless the Committee are of opinion that it is safe to do so. All loans to members must be applied to such purposes as may be approved of by the Committee. No loan shall be made for a longer period than one year, unless it be made repayable by instalments of equal amount at regular intervals, in which case the maximum period for repayment may be three years. No loan shall be granted to a member which shall make his total indebtedness to the Society at any time to exceed £50.

25. The normal rate of interest on loans to members shall be fixed at $6\frac{1}{2}$ per cent. per annum, calculated at the rate of $1\frac{1}{4}$ d. per £, or fraction of a £, for every calendar month, or fraction of a month, during which the money is on loan. The interest on the loan shall be payable on the same date as the loan itself, or its instalments. (See also Rule 31.)

The Society shall not open a current account with any borrower.

26. A member who wishes to obtain a loan shall fill up and sign a form, stating the amount desired, the purpose and period for which it is required, whether he wishes to repay by instalments, and the names and addresses of the persons who have consented to act as sureties, or particulars of any other security which he may propose to offer.

Such formal application must be received by the Secretary at least two days previous to a meeting of the Committee, and if thus received shall be considered at that meeting. If the Committee are satisfied with the trustworthiness of the applicant and his sureties, and as to the probability of the loan proving profitable to the borrower, they may sanction the loan, provided that funds are available, and may fix the date and instalments, if any, of repayment. The Committee may refuse to grant a loan without stating any reason for their action. Early notice of their decision shall be communicated to the applicant. If they think it desirable to postpone the consideration of an application for a loan, the applicant shall be so informed by the Secretary.

Should the loan be repayable by instalments the borrower shall be given a card on which shall be stated the amount and terms of the loan. On this card the instalments as repaid shall be recorded and initialled by the officer of the Society to whom the money is paid.

If the available funds are not sufficient to provide for all the loans approved of, preference shall be given to applicants who have not recently received loans over those who have, and to applicants for small loans over applicants for larger amounts. No loan shall be paid to an applicant until he and his sureties have signed a document embodying the terms on which it is granted, so far as the Committee may require. Should this document not be completed and signed within a week from the date upon which notice of sanctioning the loan was sent to the borrower, the Committee shall not be bound to complete the loan.

27. The Committee may require, as a condition of granting a loan for the purchase of live stock, that the applicant shall insure such stock, and that he shall keep up the insurance until the loan is repaid.

28. No person save a member of the Committee, or the Secretary, or Treasurer, shall be present at the meeting of the Committee when an application for a loan is under consideration. If a member of the Committee himself applies for a loan, he shall withdraw while his application is being discussed or voted on. If it is found necessary to take a vote in regard to the making of a loan, such vote shall be by ballot. The proceedings at Committee meetings in respect to loans shall be treated as strictly confidential, and any member of the Committee or officer of the Society who infringes this Rule shall be liable to expulsion or dismissal.

29. Should any loan or instalment not be repaid on the date on which it is due, a notice shall be sent by the Secretary to the borrower. If the amount is not paid within fourteen days, together with a fine of 2d. per £ of the sum owing, and no satisfactory explanation for non-payment is furnished, the borrower and his sureties may be required to pay within fourteen days the whole of the amount owing, including fine and additional interest, or, if other security has been given, steps shall be taken to realise the same. If before repayment of a loan is due, the borrower notifies the Secretary of the Society that, owing to sickness or other cause, he desires an extension of the date fixed for repayment, the Committee may, if it considers the reason given sufficient, remit the fine and, with the consent of the sureties, extend the date fixed for repayment, on such conditions as they may think fit.

The decision of the Committee to extend the time for repayment of a loan must be unanimous. On a loan being repaid, no further loan shall be granted to the same borrower, until a period of at least a month has elapsed from the date of repayment of first loan. No further sum shall at any time be advanced to a borrower, unless all sums due, with interest, by such borrower to the Society have been repaid in full.

If the Committee are satisfied that a borrower has not within a reasonable time utilised a loan for the purpose for which it was granted, or has in any way mis-applied the loan, the Committee shall have power to recall the loan forthwith (both principal and interest), or otherwise to punish the offender in accordance with the Rules.

30. The Committee shall open a current account with a Joint Stock Bank approved by a General Meeting. All loans shall be made by means of cheques upon this Joint Stock Bank. In very exceptional cases where, owing to the distance of the nearest Bank,

this provision would prove difficult of adoption, it may be waived with the consent of the Agricultural Credit Section.

All payments by cheque shall be signed by two members of the Committee and countersigned by the Secretary. All cash received by the Society in repayment of loans or in other ways, shall be lodged with the least possible delay by the Secretary or Treasurer in the said current account until the method of investment of all or a part of such funds has been decided upon.

Reserve Fund.

31. No portion of the funds of the Society shall be divided by way of profit, bonus, dividend, or otherwise, amongst the members. The funds and investments representing the Reserve Fund shall be kept in a separate account, and shall not be applied to the payment of management expenses, but may be lent to members or applied to any other approved purpose, with the authority of a General Meeting. If any loss be incurred by the Society otherwise than in respect of the management expenses, the summoned General Meeting may vote such sum as it considers desirable from the Reserve Fund to meet the loss. Any surplus accruing to the Society after payment of management expenses shall be carried to the Reserve Fund.

Should the Reserve Fund reach a sum of £300, or one-fourth of the deposits of the Society, whichever be the larger sum, a General Meeting shall decide whether further profits shall be added to the Reserve Fund, or whether a diminution shall be made in the rate of interest charged to borrowers.

32. In the event of a Society being dissolved or wound up, the surplus assets, including the Reserve Fund, after payment of the liabilities of the Society and the cost of dissolution or winding up, shall not be divided among the members, but shall be devoted to such useful purposes in the district as may be determined by the General Meeting.

Special Levy on Members.

33. If the audited accounts of any year show a balance of loss on the Society's working, due to the expenses of management, and not to the losses upon loans, etc., a special levy shall be made on the members, to an extent to be decided upon by the General Meeting, towards meeting the said loss. Each member shall contribute an equal amount towards this levy.

Investment of Surplus Funds.

34. Any funds of the Society which are not placed on current account in the approved Joint Stock Bank, may be deposited by the Committee in the Post Office Savings Bank, in any Savings Bank certified under the Trustee Savings Bank Act of 1863, in the Bank of Ireland, or may be invested in any security in which Trustees are for the time being authorised by law to invest; and shall not be otherwise invested.

Trustees.

35. The General Meeting shall elect one or more Trustees to hold the property of the Society. These Trustees shall be entitled to invest any money belonging to the Society which is not required for loans in any of the manners specified in the preceding Rule.

A copy of every resolution appointing a Trustee shall be sent within fourteen days to the Registrar in the form prescribed by the Treasury Regulation, and also to the Agricultural Credit Section.

Should a vacancy in the office of Trustee due to death, resignation, or other cause, not be duly filled within fourteen days of the occurrence of such vacancy, an intimation of the vacancy shall be forwarded to the Registrar and to the Agricultural Credit Section.

The same person shall not hold the office of Trustee and at the same time of Treasurer or Secretary.

Officers.

36. The Society shall, in addition to the Trustee or Trustees, have the following officers:—a Chairman, a Treasurer, a Secretary, and a Committee. The Treasurer may also be Secretary of the Society, with the sanction of the General Meeting. All the officers, save the Chairman, shall be elected by a majority of

the members of the Society present and voting at the Annual General Meeting, or at a summoned General Meeting; and any officer may be removed by a resolution of such meeting. Should any officer die, resign, be removed, or become incapable of acting, the Committee shall have power to appoint a qualified person to fill such vacancy until the next Annual General Meeting. The Treasurer and Secretary shall hold office during the pleasure of the Society: all other officers shall continue in office until the next Annual General Meeting. At every Annual Meeting such officers shall be elected for the ensuing year, or, in the event of failure of such election, those last appointed shall continue in office. Retiring officers may be re-elected.

Method of Election of Officers.

37. Save where the General Meeting otherwise decides, the following shall be the method of election of officers.

If the nominations exceed the number of vacancies, the names of all persons nominated shall be written down on slips of paper and one of these slips shall be given to each member present, who shall place a cross against the name or names of the person or persons for whom he votes. A member must not vote for more persons than the number of vacancies, nor give more than one vote to any candidate. The voting slips shall be handed to the Secretary or Chairman and the votes counted, those candidates being declared elected (up to the number of vacancies) who have received the largest number of votes. At the close of the Meeting the voting papers shall be destroyed by the Chairman.

Voting.

38. Every member over the age of 21 shall have one vote and no more; nor shall any member vote by proxy. The Chairman of the Society shall have an additional casting vote in the event of the votes being equal. No member who is in arrear with any payment due by him to the Society shall be entitled to vote at any Meeting so long as such arrear remains unpaid.

General Meeting.

39. The first Meeting of the members after registration of the Society shall have the same powers as those given in the Rules to the Annual General Meeting.

The Annual General Meeting shall be summoned during the months of February or March in each year, at least a week's notice being given.

Any question submitted to the decision of the Meeting shall be decided by a majority of votes, save as otherwise provided in these Rules. All General meetings of the Society shall be held at the registered office of the Society, unless the Committee decide—either in general or in a particular case—that the Meeting should be held at some other place. In no case, however, shall any Meeting of the Society or Committee be held on or in connection with premises licensed for the sale of intoxicants.

40. A summoned General Meeting shall be held whenever the Chairman and Secretary, or a majority of the Committee, think expedient, or whenever not less than one-fifth of the total number of members shall so request the Secretary, in writing. At a Meeting summoned on the requisition of members no other business than that specified in the notice shall be taken into consideration.

41. Ten members shall constitute a quorum of an Annual or summoned General Meeting. At all General Meetings the Chairman shall, if present, preside; if he be not present, a member of the Committee, chosen by the Meeting, shall act as Chairman.

The functions of the Annual General Meeting shall be:—

(1) To receive from the Committee a report and full statement of accounts of the preceding year: together with the audited balance sheet; to consider same, and, if satisfactory, to adopt them;

(2) To decide any appeal from a decision of the Committee which may be referred to it, provided at least seven days' notice of any such matter has been furnished to the Secretary;

(3) To elect the Committee and other officers, as required by the Rules;

(4) To transact any other general business of the Society;

42. A special General Meeting of members shall be called at any time by the Committee, upon receiving intimation from the Agricultural Credit Section that matters had arisen requiring the consideration of such Meeting. An Inspector, Organiser, or other officer of the Credit Section shall, on request being made to that effect by the Section, be permitted to be present at such General Meeting of the Society.

Committee.

43. The Committee of Management shall, subject to these Rules and to any instructions it may receive from a General Meeting, have full power to conduct the business of the Society, and shall in all things act for and in the name of the Society. All acts and orders under the powers delegated to it shall have the like force and effect as the acts and orders of the Society at a General Meeting.

The Committee shall be elected at the Annual General Meeting of the Society. No person in receipt of any remuneration from the Society shall be a member of the Committee.

44. The Committee shall consist of 7 persons in all, including the Chairman, unless a summoned General Meeting fixes some other number, which shall not be less than 5 or more than 9.

No member of the Committee shall vote on any question which affects his own conduct or interest (including any application for a loan), nor shall he be present when the vote on any such question is taken.

The Committee shall elect its own Chairman, who shall, when present, preside at the General Meeting of the Society.

45. The Committee shall meet for the transaction of business at least once a month on regular dates, which shall be annually arranged.

Additional meetings of the Committee shall also be held as often as the business of the Society may require, the Chairman and Secretary being empowered to summon such meeting at their discretion. Any three members of the Committee may also require the Secretary to call a special meeting thereof, by giving him seven days' notice in writing. At such special meeting no business shall be taken into consideration other than that specified in the notice. Three members of the Committee shall constitute a quorum. The Chairman, or, if he be not present, a member chosen by the Committee, shall preside. Every question shall be decided by a majority of votes, save as otherwise provided, and in the event of votes being equal, the Chairman shall have an additional casting vote.

A special meeting of the Committee shall at any time be summoned on written request to that effect being received from the Agricultural Credit Section and an inspector, organiser, or other officer of the Credit Section, shall be permitted to be present at such special meeting.

46. Should a member, during any year ending 31st December, be absent from two-thirds of the total number of Committee meetings held during the year, he shall be considered ineligible for re-election to the Committee for the following period of twelve months, unless the General Meeting is satisfied as to the reasons for his non-attendance.

Should a member resign his position as a member of the Committee, the Committee shall have power to co-opt to the vacancy another member of the Society for the period intervening between such resignation and the next General Meeting.

47. The Committee shall draw up a concise Prospectus of the Society, giving the names of the officers and Committee; the registered office; the hours such office is open for the transaction of business; the times fixed for Committee meetings and Annual General Meetings; the terms and conditions of membership; the interest charged on loans, including the fines for overdue payments; and the terms offered to depositors.

48. The Committee shall give special attention to the obtaining of local deposits from members and non-members of the Society. It shall provide the Secretary with a sufficient number of copies of the Rules and Prospectuses. Such Rules and Prospectuses shall be sent to any person on demand, on payment

of 3d. per copy, but the Committee shall have discretion to distribute gratis amongst possible members and depositors a limited number of copies of the Rules and Prospectus.

49. The Committee shall also provide the Secretary with a sufficient number of copies of the last Annual Return or Balance Sheet, duly audited, containing full particulars as to the receipts and expenditure, the funds and effects of the Society, for gratuitous supply to every member and depositor in the Society, and all persons interested in the Society's funds. It shall be the duty of the Secretary to supply one copy gratis, on application from such persons. A copy of the last Annual Balance Sheet of a Society, together with a copy of the Auditor's Report, shall always be hung up in a conspicuous place at the Society's office.

50. The procedure at each Ordinary Meeting of the Committee shall be as follows:—The Secretary shall first read the Minutes of the preceding Meeting. A statement of accounts shall be presented by the Secretary or Treasurer, showing the loans outstanding, the deposits in hand, and the moneys received or paid since the last Meeting. This statement shall be checked and signed by two members of the Committee.

The Secretary shall report as to the instalments of loans due but remaining unpaid, and the action to be taken in each case shall be determined by the Committee. He shall then read the list of applications for loans, which may not have been previously granted, owing to lack of funds. The Committee shall then decide as to which of these shall be granted, should additional funds be available. Any further applications for loans will next be considered, and a decision arrived at in each case. Other business, such as the admission of new members, and any matters submitted for the consideration of the Committee, will then be discussed.

51. It shall be the duty of the Committee to see that arrangements are made by the Secretary to have all the accounts, documents, bonds, and papers of the Society and any cash temporarily in hands, kept confidentially under lock and key, in a press set apart for the purpose, and to ensure that the key of this press is retained only by the Secretary or Treasurer. The Committee may, in their discretion, empower one of their number in addition to be given access to the Society's press.

The Committee shall arrange that all the books and documents of the Society shall be readily available, and produced at any time to the auditor appointed for the Society, or to an inspector or officer of the Agricultural Credit Section, or any officer representing the Registrar of Friendly Societies.

Treasurer.

52. The Treasurer shall be appointed by the Annual General Meeting. He shall be an ex-officio member of the Committee, save in those cases where he also holds the position of Secretary. He shall take charge of the funds of the Society which are not invested, and shall, with the least possible delay, place such moneys to current account in the Joint Stock Bank, or invest them as instructed by the Committee; and pay all demands, when directed to do so by the Committee or by a General Meeting of the Society. He shall be present at each audit of the books of the Society, at which he shall render a full and clear account of the financial position of the Society, and shall also do so when required by resolution of the Committee or General Meeting.

He shall give up all books, deeds, documents, moneys and property of the Society in his custody to such person as the Committee or General Meeting may appoint, when required to do so by resolution of the Committee or General Meeting.

Unless exempted by a special resolution of a General Meeting, he shall give security in the amount of £50, in the manner provided by Section 54 of the Act. He shall receive no remuneration, but shall be refunded incidental expenses incurred by him for postage, etc., on furnishing full particulars to the Committee.

In the temporary absence of the Treasurer, the Committee shall appoint two of their number to perform his duties. In the event of his resignation, a

Special General Meeting shall be called to elect another member to fill the position.

The Secretary of the Society may, if the General Meeting so decide, also hold the position of Treasurer.

Secretary.

53. The Secretary shall be appointed by the Committee, subject to the approval of the next ensuing General Meeting. Should his appointment be then approved, he shall hold his post subject to one month's notice, either given by himself or by the Committee. He shall furnish security for the proper fulfilment of his duties, to an amount to be decided by the General Meeting. Such security shall not be less than £20 nor more than £100 in amount.

54. The Secretary shall not be a member of the Committee, nor have any vote in its proceedings, but he shall have a deliberative voice at all meetings of the Committee and Society, and shall be a member of the Society. He shall not receive any fixed salary, but shall be given annually by the Committee, should the funds of the Society so permit, a small honorarium in recognition of his services. Such honorarium shall in no case exceed one-fifth of the amount of the security furnished by him. The Committee shall be responsible for making proper arrangements for the custody of the security furnished by the Secretary (and by the Treasurer, where such has been required from this officer).

55. The Committee shall have full discretion to suspend or dismiss the Secretary from performing the duties of his office for any irregularity in the performance of these duties, and to provide for another person fulfilling same until the decision of a specially summoned General Meeting has been ascertained. Such special General Meeting must, at the Secretary's request, be convened at the earliest convenient date.

56. The duties of the Secretary shall be:—

To summon and attend all Meetings of the Society and of the Committee, and to be present regularly at the offices of the Society at such dates and hours as shall be decided by the Committee.

To record correctly the names of the officers, members of the Committee, and other members present, to take a note of the Minutes of proceedings and to transcribe same into a book, such record being authenticated by the signature of the Chairman as the proceedings of the Meeting.

To keep correctly written up to date the Roll Book of the Society, containing the signed declarations of adhesion by each member, and the certified record of the Resolutions of the Society accepting each member.

To receive proposals for election to membership of the Society, applications for loans, requests for permission to deposit money with the Society, and notices of withdrawal of deposits, which should be submitted by him to the next Meeting of the Committee.

To hand over forthwith to the Treasurer at the close of every Meeting, or in case of receipts at other times, all moneys received by him.

To conduct correspondence on behalf of the Society, and prepare all necessary forms and returns.

To pay over all moneys temporarily in his custody and to give up all books, documents and property belonging to the Society, when ordered to do so by a resolution of the Committee or General Meeting.

To keep in proper order and under lock and key, in the press set apart for the purpose, all accounts, documents, bonds, and papers of the Society, so that no unauthorised person may have access to them.

To prepare receipts and other documents in the form arranged, for the signature of borrowers, before the loans sanctioned are paid over.

To pay to members or others the amounts authorised by the Committee.

To supply forms, books of Rules, Prospectuses, Balance Sheets, or other information which may be applied for, on the conditions set forth in the Rules.

To prepare all Returns, Balance Sheets, and other documents required by Act of Parliament, Treasury Regulations, or the Agricultural Credit Section, and to duly forward same to the Registrar, or to the Credit Section, as the case may be.

To have readily available at any time, for examination by the auditor or by an inspector or other officer representing the Agricultural Credit Section or the Registrar, all the accounts, documents, bonds, and papers of the Society. The said auditor or inspector shall be furnished with every facility for obtaining the information asked for, and for ascertaining the amount of cash in the hands of the Secretary or Treasurer.

Accounts and Book-keeping.

57. Provision shall be made in the books of a Society:—

(a) For keeping the Minutes of all proceedings of the Committee and General Meeting.

(b) For registering in a special Roll Book the names and addresses of all members, with the date of admission of each member and his signature, indicating his definite acceptance of membership, together with an authenticated copy of resolution of General Meeting agreeing to his being included in the membership of the Society.

(c) For recording particulars as to applications for loans, with dates on which repayments were made;

(d) For keeping a cash account in which shall be entered all the cash received or paid for any purpose;

(e) For keeping accounts as required by the auditors, in which shall be posted from the cash book, all amounts entered therein, showing separately the balance of each member or depositor with the Society, and the expenditure or receipts on account of entrance fees, expenses of management, interest, or discount, etc.

All the books of the Society shall be kept in the form prescribed by the Agricultural Credit Section, and supplied by such Section at such charges as may seem desirable.

Inspection of Books.

58. Any member or person having an interest in the funds of the Society shall be allowed, as provided in Section 40 of the Act, to inspect his own account and the books containing the names of the members, at all reasonable hours, at the registered office of the Society, or at any place where the same are kept, and it shall be the duty of the Secretary to produce such books and accounts for inspection if called upon.

Any person, Society, or institution (such as a Government Department, a Joint Stock Bank, etc.), which shall have advanced money to a Thrift and Credit Society, shall be deemed a person having an interest in its funds, and shall accordingly have the aforementioned right of inspection.

No person, unless he be an officer of the Society, or specially authorised by a resolution thereof, shall have the right to inspect the loan or deposit account of any other member, without the written consent of such member.

Any inspector, organiser, or other officer authorised by the Agricultural Credit Section (whether the Society hold funds from the Department of Agriculture or not) or any officer representing the Registrar shall have the right, at any reasonable hour, to inspect the books, accounts, bonds, etc., of the Society: and to ascertain the cash in hands at the time of such visit.

Audit.

59. The Committee shall once in every year, at the Society's office, submit the accounts of the Society, together with a general statement of the same and all necessary vouchers, up to the 31st December then last, for audit to a public auditor selected by the Societies from a list furnished by the Agricultural Credit Section, and shall lay before the Annual General Meeting a Balance Sheet for the preceding year, showing the receipts and expenditure, funds and effects of the Society, together with a statement of its affairs, including the amount of the Reserve Fund, the arrears due on loans, and all profits and losses.

The choice given by Section 26 of the Act, allowing a Society to appoint two or more persons, other than public auditors, as its auditors, shall not be availed of under the Rules.

The auditor shall have access to all the books, accounts, and documents of the Society, and shall examine the Balance Sheet, showing the receipts and expenditure of the funds and effects of the Society, and shall verify the same with the accounts and vouchers relating thereto, and shall either sign the same as found by him to be correct, duly vouched and in accordance with the law, or shall report to the Society in what respects he found them incorrect, unvouched, or not in accordance with the law.

60. The annual audit shall take place only at the office of the Society, and shall in no case be conducted by the transmission of books and accounts through the post. The Secretary, Treasurer, and as many as possible of the Committee of Management, shall be present at the audit, and shall furnish every possible facility to the auditor, who shall be enabled to ascertain for himself the amount of cash in the hands of the Secretary or Treasurer.

The auditor shall not hold any other office in connection with the Society. He shall receive remuneration in accordance with the arrangement made upon his appointment by the Society. The cost of such remuneration shall, whenever possible, be defrayed wholly or in part by the Society.

Annual Returns.

61. Every year, not later than the 31st May, the Secretary of the Society shall send to the Registrar an Annual Return, in the form and manner prescribed by him, of the receipts and expenditure, funds and effects of the Society, and of the number of members of the same up to the previous 31st of December, inclusive, as audited and laid before a General Meeting, together with a copy of any report or reports of the auditors, and a copy of each balance sheet made during the period included in the return. Duplicate copies shall be furnished at the same time to the Agricultural Credit Section.

Such Return shall state that the audit has been conducted by a public auditor or auditors appointed under the Act of 1896, and the manner in which and the authority under which such appointment was made.

The Committee shall provide the Secretary with a sufficient number of copies of the last Annual Return to enable him to supply gratuitously to every member or person interested in the funds of the Society, on his application, a copy of such last Annual Return, and the Secretary shall supply such copies on application accordingly.

62. A copy of the list of the names and addresses of members shall, at least once in every three years, be sent with the Annual Return to the Registrar of Friendly Societies, a duplicate copy of the Return and the list of members being at the same time forwarded to the Agricultural Credit Section.

The Society shall keep a copy of the last Balance Sheet for the time being, together with a copy of the report of the auditor, always hung up in a conspicuous place at the registered office of the Society.

Settlement of Disputes.

63. If any dispute shall arise between a member of the Society or any person aggrieved who has for not more than six months ceased to be a member of the Society, or any person claiming through such member or person aggrieved, or claiming under the Rules, and the Society or an officer thereof, it shall be decided by a majority of votes at a General Meeting, unless the Meeting agrees to refer the matter to arbitration by an arbitrator agreed to by the Society and the aggrieved person, or, in default of agreement, appointed by the Registrar or by the Agricultural Credit Section.

Applications to the Registrar.

64. It shall be the right of one-tenth of the total number of members, by an application in writing to the Registrar:

(a) To apply for the appointment of one or more inspectors to examine into the affairs of the Society, and to report thereon;

(b) To apply for the calling of a special meeting of the Society. Any such application shall be made in the prescribed form and shall be supported by such evidence as the Registrar may require.

MAP
AGRICULTURAL CO-OPERATIVE CREDIT SOCIETIES
AND
LOAN FUND SOCIETIES IN IRELAND,
1913

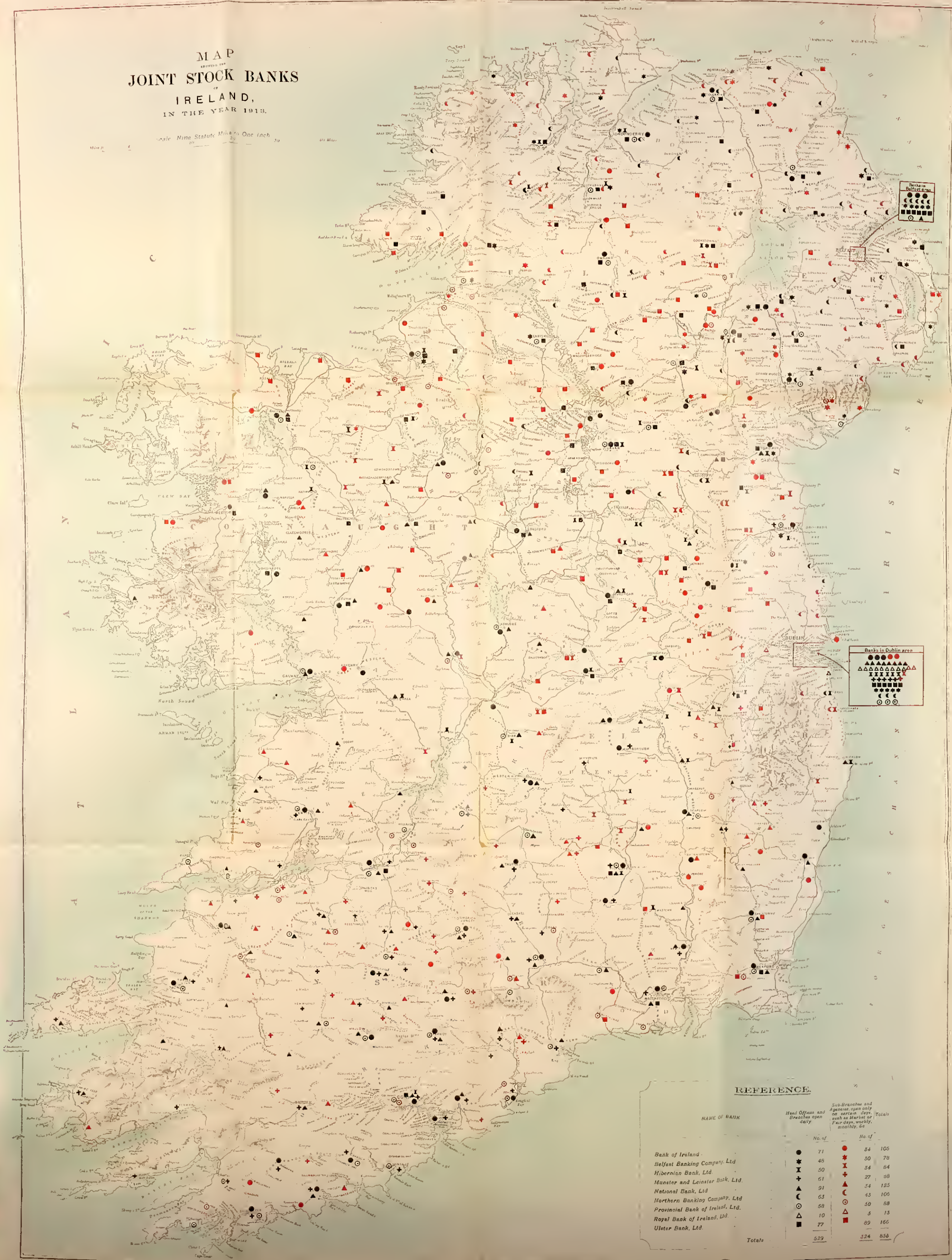


REFERENCE.

- Agricultural Co-operative Credit Societies ● 176
 Loan Fund Societies —
 (A) Societies in operation ● 50
 (B) Societies in the hands of a Receiver or
 whose operations have been suspended ⊙ 25

MAP
 OF
 JOINT STOCK BANKS
 OF
 IRELAND,
 IN THE YEAR 1913.

Scale Nine Statute Miles to One inch



REFERENCE

NAME OF BANK	Head Office and Branches open daily	No. of	Sub-Branches and Agencies open only on certain days, such as Markets or Fair days, weekly, monthly, &c.	Totals
Bank of Ireland	●	71	●	84 105
Belfast Banking Company, Ltd.	★	48	★	30 78
Hibernian Bank, Ltd.	✱	50	✱	34 84
Munster and Leinster Bank, Ltd.	+	61	+	27 88
National Bank, Ltd.	○	91	○	54 125
Northern Banking Company, Ltd.	△	63	△	43 106
Provincial Bank of Ireland, Ltd.	⊙	58	⊙	50 108
Royal Bank of Ireland, Ltd.	▲	10	▲	6 16
Ulster Bank, Ltd.	■	77	■	89 166
Totals		629		324 858

BOSTON COLLEGE



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Ireland, Dept. of
Agriculture and Technical

Report of the departmental
Committee on Agricultural

